

**POLICE AND CRIME COMMISSIONER FOR LANCASHIRE**

**STATEMENT OF ACCOUNTS**

**2016/17**

# POLICE AND CRIME COMMISSIONER FOR LANCASHIRE

## STATEMENT OF ACCOUNTS 2016/17

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## NARRATIVE REPORT

### Background

Under the Police Reform and Social Responsibility Act (PRSRA) 2011, Police and Crime Commissioners (PCC) and Chief Constables (CC) are deemed to be separate entities (Corporations Sole) and further to this the two entities have been established as Schedule 2 bodies under the Audit Commission Act 1998 (now replaced by the Local Audit and Accountability Act 2014) which means that they are both required to produce accounts which are subject to audit.

The primary function of the PCC is to secure the maintenance of an efficient and effective police force in Lancashire and to hold the Chief Constable (CC) to account for the exercise of operational policing duties under the Police Act 1996.

The CC is, in technical terms, a 100% subsidiary of the PCC and in accounting terms this means that, although the CC is required to produce accounts in his own right, his accounts will also be consolidated with those of the PCC to form a third set of "PCC Group" accounts. The CC's accounts can be found at the following link:

<https://www.lancashire.police.uk/about-us/our-performance/statement-of-accounts.aspx>

The governance framework reinforces the PCC's position in control of the budget whereby the CC has a budget delegated to him by the PCC against which performance is monitored and reported to the PCC throughout the year. The governance framework can be found at the following link:

<http://lancashire-pcc.gov.uk/the-commissioner/my-office/policies-and-procedures/>

### The Financial Statements of the Police and Crime Commissioner and Chief Constable

The Accounts and Audit (England) Regulations 2015 require authorities to follow "proper practices in relation to accounts" when preparing the accounts. The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code), which is based on International Financial Reporting Standards (IFRS) constitutes a "proper accounting practice" in England and Wales under the terms of Section 21 (2) of the Local Government Act 2003. The 2016/17 Statement of Accounts is also prepared in accordance with the Code.

The accounts reflect the current legislative framework as well as the local arrangements operating in practice.

### Contents of the Statement of Accounts

The statement gives the reader an overall impression of the finances of the PCC and the PCC Group for the financial year ended on 31 March 2017 (referred to as 2016/17).

The various sections contained within the consolidated financial statements are:

#### **Comprehensive Income and Expenditure Statements for the PCC and the PCC Group**

These statements show the accounting cost in the year of the PCC and PCC Group providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The PCC raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the movement in reserves statement.

**Movement in Reserves Statement for the PCC and the PCC Group** - The statement shows the movement in the year on the different reserves held by the PCC and the PCC Group, analysed into usable and unusable reserves. During 2016/17 total reserves of the Group reduced by £752.5m (PCC reduced by £1.8m): a reduction in usable reserves of

£1.3m (PCC also £1.3m) and a more significant reduction in unusable reserves of £751.2m (PCC reduced by £0.5m);

**Balance Sheets for the PCC and the PCC Group**– These statements show the value as at the balance sheet date of the assets and liabilities recognised by the PCC and the PCC Group. Net assets (assets less liabilities) are matched by the reserves held by the PCC.

**Cash Flow Statements for the PCC and the PCC Group**– These statements show the changes in cash and cash equivalents of the PCC during the reporting period. The statements show how the PCC generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The statements show an insignificant movement in cash and cash equivalents during 2016/17.

**Auditor's Report** – This sets out the opinion of the PCC's external auditor on whether the Accounts present a true and fair view of the financial position and operations of the PCC and the PCC Group for 2016/17

**Annual Governance Statement** – This is a statement by the PCC which states his position on governance issues, and which provides assurances on the systems of control which are maintained and on the way he conducts his business.

As the PCC Group position presents the most meaningful picture, from a reader's perspective, of the activities of the PCC and the CC, where there is a separate statement or note for the PCC and the PCC Group the order of presentation will be the PCC Group followed by the single entity PCC statement or note.

### **Changes to the presentation of the financial statements and introduction of the Expenditure and Funding Analysis**

Following CIPFA's "Telling the Story" review of the presentation of local authority financial statements, the 2016/17 Code changed the segmental reporting arrangements for the Comprehensive Income and Expenditure Statement and introduced the Expenditure and Funding Analysis. The new Expenditure and Funding Analysis brings together performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the General Fund.

Both the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis include a segmental analysis which requires local authorities to report performance on the basis of how they are structured and how they operate, monitor and manage financial performance. Previously this segmental analysis was mandated by the service expenditure analysis included in CIPFA Service Reporting Code of Practice. Whilst this provided consistency in national reporting it was not consistent with the reporting frameworks across individual local authorities and hence its usefulness to readers was brought into question. This change significantly provides the link between internal management reporting and the statutory reporting.

The Expenditure and Funding Analysis, shown as Note 1 on Page 23, along with the additional information included in that note, provide a reconciliation between the segmental analysis included in the Comprehensive Income and Expenditure and the figures reported to management and shown in the Revenue Outturn section of this report on Page 6.

The 2016/17 Code also introduces a new streamlined Movement in Reserves statement. The main changes are cosmetic but the most significant is the removal of the split between general and earmarked reserves, which is not required statutorily. However, this split and the analysis of earmarked reserves are still considered to be relevant from both a management and a stakeholder perspective, as they give an indication of the PCC and CCs ability to meet specific demands and future budgetary pressures. For these reasons the level of earmarked reserves are shown as a footnote to the Movement in Reserves statement on Page 16. A further analysis of earmarked

reserves is also included in Note 8 on Page 37, as in previous years. In addition there is the introduction of a separate note, Note 7 " Adjustments between accounting basis and funding basis under regulation", which details the adjustments that are made to the total comprehensive income and expenditure recognised by the PCC in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to meet future revenue expenditure. The adjustments are made against the General Fund Balance.

## **Review of 2016/17**

### Holding the Chief Constable to Account

It is the role of the PCC to hold the Chief Constable to account for the work of the force delivering the policing priorities. The PCC has achieved this in 2016/17 as follows:

- Through a number of planned and ad hoc meetings during the year attended by the PCC himself, members of his office and members of the Constabulary workforce both at officer and staff officer level.
- Formal meetings include quarterly scrutiny meetings and joint management boards. The notes of the meetings and the reports tabled can be found on the PCC website at [www.lancashire-pcc.gov.uk/meetings-and-decisions](http://www.lancashire-pcc.gov.uk/meetings-and-decisions)
- The PCC also holds regular one to one meetings with the Chief Constable for direct discussion on performance
- The PCC (and members of his office) sits on strategic working groups ensuring that the Police and Crime Plan priorities are reflected in day to day operational delivery of policing across the force.

### Complaints

It is the responsibility of the PCC to consider complaints against the Chief Constable. Complaints against other ranks are dealt with by the Professional Standards Department within Lancashire Constabulary in line with their published policy.

In 2016/17 the OPCC received seven complaints against the Chief Constable. Whilst seven complaints were received against the Chief Constable the nature of the complaints were about standards of service or conduct of officers under his direction and control. Therefore, whilst no action was taken against the Chief Constable, where appropriate, the complaints were forwarded to the Head of Professional Standards to review the cases and take the appropriate action.

### Complaints against the Police

Complaints against the police are dealt with by the Constabulary's Professional Standards Department within Lancashire Constabulary in line with the statutory rules. While there are proposals contained within the Policing and Crime Bill to transfer responsibility for complaints to the Office of the PCC, this is not currently the case.

The complaints policy is published on Lancashire Constabulary's website. If a complaint is upheld then appropriate action is taken. Where a complaint is not upheld, then the complainant can refer the issue to the Independent Police Complaints Commission (IPCC) for further consideration.

### Delivering the Police and Crime Plan priorities

The priorities contained within the Police and Crime Plan for Lancashire are based on extensive engagement with stakeholders, residents and Constabulary that took place in the first few months of the PCC's administration. They have been constantly examined since then through regular engagement by the PCC, his office and through specialist research to ensure they remain relevant and appropriate.

The four priorities are:

- Defending frontline policing
- Tackling crime and re-offending
- Protecting vulnerable people
- Championing victims' rights

The performance of the PCC against these priorities is reported in the PCC's Annual Report which is available at this link:

<http://lancashire-pcc.gov.uk/the-police-and-crime-plan/annual-report/>

A summary of this performance is given below.

### ***Priority - Defending Frontline Policing***

Achieved by:

- Recognising that frontline is more than 'just' neighbourhood and recognising that policing services are provided by a range of teams across the force.
- The 'Place based policing' review that has changed the way in which services are delivered across the county whilst ensuring every inch is covered 24 hours a day 7 days a week.
- The use of mobile technology that enables officers to spend more time in the communities they serve rather than in a station
- Through the Constabulary's contact centre which is changing the way the public interact with the police service and streamlines the way in which the public's issues are dealt with
- By recruiting new Police and Community Support officers to ensure the new model for delivering services is fully resourced
- With the Citizens in policing programme where 505 special constables, 367 police volunteers and more than 450 police cadets assist in the delivery of the policing service in Lancashire

### ***Priority – Tackling crime and reoffending***

Achieved by:

- Early Action – where support and intervention action is taken to prevent crimes occurring or escalating
- Training for police officers and partner agencies in the new and emerging areas of serious crime such as human trafficking and modern slavery. This action helps such activity to be recognised and detected and therefore reduced.
- Publicity and engagement that highlights the success of the force in detecting and preventing crime and in turn prevent further criminality occurring – such as the Modern Slavery conference delivered by the OPCC in 2016/17 and the 'Scams' campaign delivered in partnership with Trading Standards services across Lancashire
- The provision of structured placements to support individuals and reduce reoffending such as the Avert programme provided by Lancashire Women's Centre
- Investment in substance misuse programmes across the County to support users through peer and mentor support

### ***Priority – Championing Victim's Rights***

Achieved by:

- The commissioning of a victim's support service from Lancashire Victim Services that provides the necessary support directly and through partners to the victims of crime in Lancashire
- The addition of further specialist support services to enhance the service provided by Lancashire Victims Service

- The restorative justice programme that encourages engagement between the victim and the perpetrator of a crime to resolve issues for the victim and also educate the offender in a way that discourages reoffending

### ***Priority – Protecting Vulnerable People***

Achieved by:

- The commissioning of domestic abuse services across the county in conjunction with a range of public engagement campaigns to raise awareness of the issue
- Significant investment in policing resource, education and training, an extensive program of publicity and engagement to tackle child sexual exploitation
- A focus within constabulary systems on identifying individuals that are made vulnerable as a result of a crime so that support can be made available to them

### **Financial performance of the Group**

#### **Revenue Budget**

The PCC for Lancashire's spending power in respect of 2016/17 was agreed at £266.162m and, after taking account of specific grants, the net budget requirement was set in February 2016 at £261.521m funded as follows:

	<b>£m</b>	
Police grant	192.537	73.6%
Council Tax	68.984	26.4%
	<u>261.521</u>	

Funding received from central government was £192.537m in 2016/17 representing a reduction of £1.031m from that received in 2015/16.

This left £68.984m to be raised from the council tax. A surplus on collection of council tax was achieved in 2015/16 contributing £1.195m to the 2016/17 budget leaving £67.789m to be raised through the council tax charged to the residents of Lancashire in 2016/17. This represents £162.22 for each Band D property in the county, an increase of 1.99% over the 2015/16 charge.

#### **The 2016/17 Revenue Outturn**

The 2016/17 revenue budget for the PCC was set at £261.521m in February 2016 and after taking into account the planned use of balances (£0.060m) by budget holders was increased during the year to £261.581m in order to meet known pressures. The year-end position shows spending of £257.527m giving an under-spend of £4.054m (1.5%).

The table below sets out a summary position for the budget:

<b>Position as at 31 March 2017</b>				
<b>Responsibility Area</b>	<b>Revised Budget £m</b>	<b>Spend £m</b>	<b>Variance £m    %</b>	
<b>Chief Constable</b>				
Pay	193.109	194.208	1.099	
ACC Territorial Operations	8.606	8.195	-0.411	
ACC Specialist Operations	10.489	10.731	0.242	
Director of Resources	15.227	14.216	-1.011	
Deputy Chief Constable	1.963	1.967	0.004	
<b>Chief Constable DFM</b>	<b>229.394</b>	<b>229.317</b>	<b>-0.077</b>	
Chief Constable non-DFM	<b>19.278</b>	<b>17.032</b>	<b>-2.246</b>	
<b>Chief Constable – Total</b>	<b>248.672</b>	<b>246.349</b>	<b>-2.323</b>	<b>-0.9</b>
<b>Police and Crime Commissioner</b>				
Office of the PCC	1.421	1.905	0.484	
Reducing crime and reoffending	0.625	0.662	0.037	
Community Safety & Partnerships	1.941	1.116	-0.825	
Victims and Witnesses of Crime	1.740	1.690	-0.050	
Grant income	-1.740	-1.740	-	
<b>PCC DFM</b>	<b>3.987</b>	<b>3.633</b>	<b>-0.354</b>	
PCC non-DFM	<b>8.922</b>	<b>7.545</b>	<b>-1.377</b>	
<b>PCC - Total</b>	<b>12.909</b>	<b>11.178</b>	<b>-1.731</b>	<b>-13.4</b>
<b>TOTAL BUDGET</b>	<b>261.581</b>	<b>257.527</b>	<b>-4.054</b>	<b>-1.6</b>

A detailed report is available on the PCC website.

The year-end position reflects a number of underspends, savings and cost pressures during 2016/17, the main elements being:

	<b>£m</b>
Costs of transforming the organisation including the costs of voluntary redundancy and voluntary exit	0.4
Increased cost of meeting claims arising from ill-health retirements	0.4
Reduced cost of financing capital expenditure in 2016/17	(1.7)
Police officer and staff vacancies	(1.6)
Savings from reduced running costs for ICT	(0.3)
Savings on constabulary non-staff budgets through zero based budget approach	(1.1)
Savings on OPCC non-staff budgets	(0.4)

The PCC has agreed to transfer the year-end under spend on the revenue budget of £4.054m in to the transition reserve to provide funding for investment in the capital investment programme and to meet the costs of transforming the police service in Lancashire.

#### **2016/17 year-end position for reserves**

The general reserves (DFM and General Fund) as at 31 March 2017 are £12.4m and represent around 4.7% of the 2017/18 budget of £261.647m. Other earmarked reserves total £34.3m including £25.6m held in transition reserves and £1.46m in the capital funding reserve to mitigate against the risks of implementing the change programme and provide investment for the PCC's capital programme in 2017/18 and future years.

The PCC's Chief Finance Officer believes that the level of reserves remains appropriate in the context of the "Futures" programme and the future reductions in funding forecast for future years.

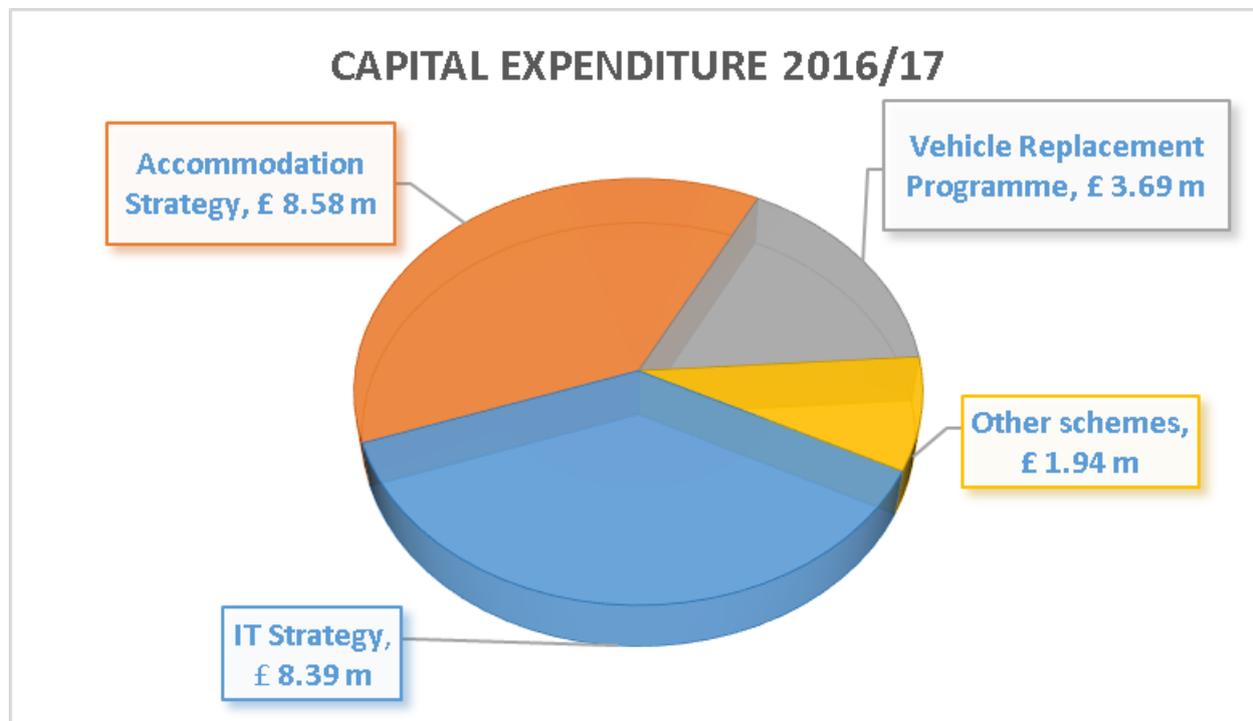
Further detail on movement in reserves can be found in the movement in reserves statement and in Notes 8 and 9 to the accounts.

## Capital Funding

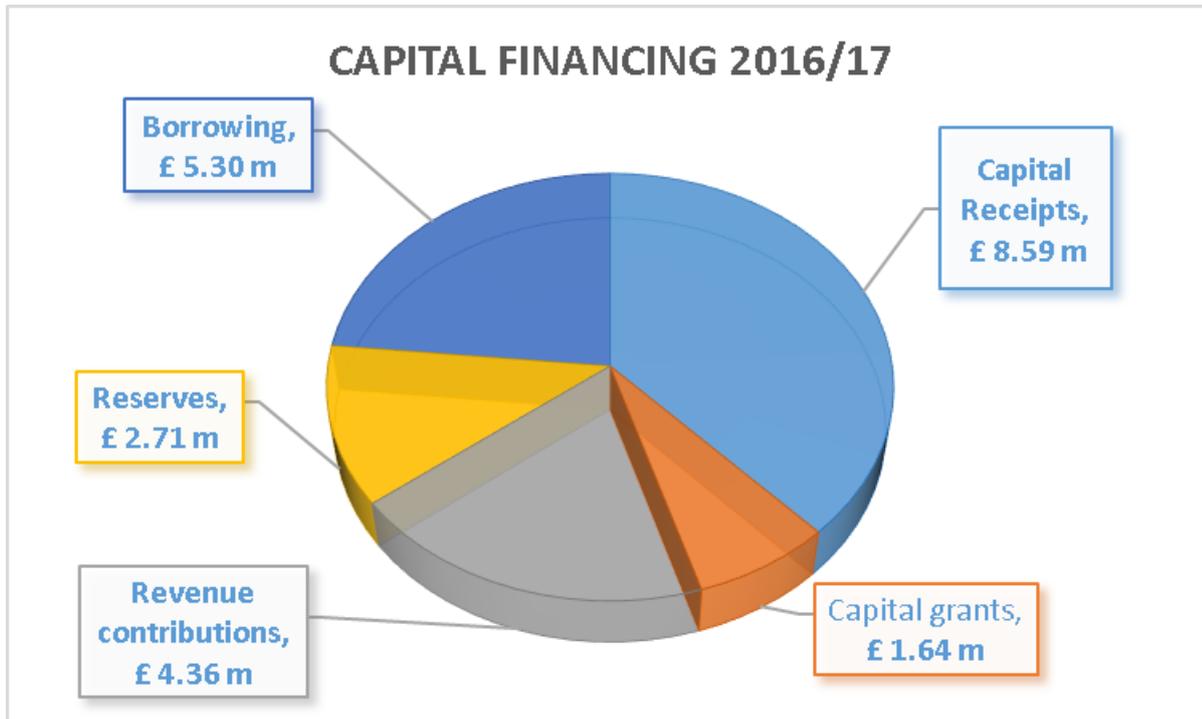
The 2016/17 Capital Programme was finalised for the year at £24.796m. The main elements of the programme are the ICT and accommodation strategies and reflect the need for prioritised investment in these key areas which increasingly underpin the delivery of an efficient and effective police service. The capital programme was financed through a mix of grant, capital receipts, revenue contributions and £5.3m prudential borrowing

A total of £22.598m was spent on the capital programme during 2016/17 which was £2.198m less than planned, with the under-spends and reasons for these being reported to the PCC throughout the year. Of this, £1.446m was carried forward to 2017/18 to enable the schemes to be completed and a further underspend of £0.752m reflecting changing priorities and the fact that some schemes had been completed at a lower cost than anticipated. After allowing for depreciation, impairment and the disposal of assets, the value of long term assets held at 31 March 2017 is estimated at £169m.

The major areas of capital spending during 2016/17 were:



The 2016/17 capital expenditure was financed through a mix of grant, revenue contributions and borrowing, as follows:



The financing of capital expenditure generates a borrowing requirement. The PCC needs to pay the cost of this borrowing out of his own resources and therefore must ensure such borrowing is prudent, sustainable and affordable in the long run. All external borrowing, when required, is currently secured from the Public Works Loan Board (PWLB). All of the PCC's debt, used to finance his capital programme, is held with the PWLB with no new loans being raised during 2016/17 as the borrowing requirement was met, in the short term, from cash balances. This was considered more cost effective than borrowing at this time. The borrowing strategy is outlined in the 2016/17 Treasury Management Strategy, a copy of which can be found on the PCC's website at the following link:

<http://lancashire-pcc.gov.uk/wp-content/uploads/2016/03/D2015-89.pdf>

The PCC maintains a rolling five year capital forecast and resources are set aside to finance future capital expenditure. As at 31 March 2017 the following usable reserves are earmarked to support capital expenditure:

	£m
Capital receipts reserve	0.363
Capital funding reserve	1.458
Earmarked revenue reserves	27.077
	28.898

### Investing for the future

In order to preserve the operational integrity and capability of the force in future years, whilst delivering the savings required, the PCC must consider a number of proposals that will change how the service operates.

It is recognised that, in order to deliver savings proposals to meet the funding gap faced by the PCC in future years, the way the police service is delivered will need to change significantly. It is also recognised that improving the efficiency in which assets such as buildings, infrastructure, IT networks, IT equipment and staff are used, is crucial if the level of service being provided is to be maintained whilst the way it is delivered changes.

In order to improve the efficiency of the service it has been identified that significant investment is therefore needed in these assets which is recognised in both the ICT and the Asset Management strategies.

These strategies have identified a number of projects that will ensure frontline policing is protected and made as efficient as possible in future years. These projects have been brought into the PCC's capital programme for 2017/18 and future years and include:

- The replacement of IT systems that ensure policing services can continue to be delivered in a secure and sustainable way
- Replacement of IT equipment to enable front line officers to operate as efficiently and productively as possible
- Reconfiguration of the accommodation used by the constabulary in order to ensure it is used as efficiently and cost effectively as possible including the construction of a new Headquarters building in West division

This investment will help to deliver the permanent savings in the revenue budget that are required in future years to ensure that the PCC can provide policing services in Lancashire within the resources he has available.

The level of new resources available for capital is not sufficient to meet the scale of investment envisaged and therefore options for funding the investment programme have been considered. The PCC has therefore, as part of his long term financial strategy, set aside a significant proportion of his earmarked reserves to provide one off investment funding for proposals within the capital programme that will assist the constabulary to deliver services in a secure and sustainable way. The PCC has committed £25.6m of his earmarked revenue reserves towards such investment and will continue to assess future levels of reserves to determine if further amounts may be made available for the capital programme in future years.

As part of the PCCs financial strategy any future underspending on the Revenue budget will continue to be reviewed and if appropriate set aside in reserves to assist in meeting this investment programme.

### **Police Pension Account**

A police pension account was set up on 1 April 2006 and administers all of the police pension schemes (the 1987, 2006 and the new 2015 schemes). Under the Police Reform and Social Responsibility Act 2011, the account is to be administered by the CC and the accounts for 2016/17 follow the main statements.

Benefits payable are funded by contributions from employees and employers and any difference between benefits payable and contributions receivable is funded by an additional contribution by the PCC from the Police General Fund. Prior to 2015/16 this additional contribution was financed in full by a top-up grant from the Home Office received by the PCC.

From 1 April 2015 the actuarial valuation changed the employer contribution rate from 24.2% to 21.3%. However, the benefit of this reduced contribution rate was not passed on to policing bodies which means that, although the deficit on the Police Pension Account is still met by an additional contribution from the Police Fund, not all of this additional contribution is now met from Home Office Grant; an amount equivalent to 2.9% of pensionable pay is funded from the PCC's own resources. The amount of additional contribution required from the PCC in 2016/17 was £56m (£57.5m in 2015/16) with £53m (£54.4m in 2015/16) financed from Home Office grant and the balance being funded from within the budget allocated to the CC.

## **Pension Liabilities**

Pension costs are reported in line with International Accounting Standard 19 (IAS19). The pensions' liabilities shown on the PCC Group balance sheet reflect the underlying commitment that the PCC has in the long term to pay retirement benefits. Although recognition of these liabilities has a considerable impact on the net worth of the PCC Group, statutory arrangements for funding the deficit mean that the financial position of the PCC Group remains healthy.

At 31 March 2017 the net pensions' liability of the PCC Group, calculated by the actuary, is £3,698m, (an increase of £751m over the previous year's figure of £2,947m). The net liability is split between the Local Government Pension Scheme (£131m) and the Police Pension Schemes (£3,567m); the police schemes are unfunded, ie no investments or other assets exist to offset future liabilities

The share of the net pensions' liability relating to the PCC's office as at 31 March 2017 is £1.5m (£0.8m at 31 March 2016).

Other elements affecting the change in liability are shown in detail in Note 28 to the accounts.

## **Financial outlook**

The PCC, in conjunction with the CC, has developed a multi-year financial strategy to continue the process of good financial planning which has ensured that over the current period of financial austerity, managing the reductions in government funding have been delivered in a secure and planned way. It is clear that the period of austerity will continue for a number of years and a total of more than £95m of savings are likely to be required over the period 2011/12 – 2019/20 of which £82.5m has already been delivered.

The longer term financial position is reviewed on a regular basis and further savings of c £13.4m are currently forecast to be required for the period 2018/19 to 2020/21. This is a significant challenge for the PCC and the Constabulary and work is already underway to develop plans on how these can be achieved. The PCC and the Constabulary have a proven track record, as recognised by both Her Majesty's Inspectorate of Constabularies (HMIC) and external audit reports, in their ability to identify and deliver financial savings and it is anticipated that this will continue. However, as the economic position becomes more difficult, it will be increasingly challenging to find savings on the scale required.

The level of funding and demand pressures for 2017/18 and future years remains uncertain.

Specific Risks are:

➤ ***Specific Grant allocations***

Specific grants such as the Counter Terrorism Grant and funding for the provision of Victim Services are reviewed each year. No confirmation beyond 2017/18 has been provided in the final settlement for such grants and there remains a risk they could reduce in future years. Should there be any changes in grant provided for these services this may be offset by corresponding changes in expenditure requirements or a transfer of budget from another area of the service.

➤ ***Future levels of top-slicing***

The PCC's MTFs includes the impact of previously announced top-slices to the national funding level for police services. No announcements have been made, however, on the level of top-slicing that will take place beyond 2017/18 therefore the estimated impact currently reflected in the forecast could be subject to change when future announcements are made.

➤ ***Partner Funding for PCSOs***

The PCC is committed to ring-fencing police budgets that currently fund PCSOs however the overall funding available will be dependent upon the continuation of partner funding. Some funding for PCSOs is received from partners across Lancashire and is match funded by the Commissioner. Several partners have funding in 2017/18 and the remaining level of funding in future years remains uncertain.

➤ ***Replacement of Airwave***

The emergency services communications network 'Airwave' is scheduled to be replaced by 2019/20. Lancashire Constabulary was initially amongst the first forces scheduled to transfer to the new network in 2017/18 and as a result will incur considerable capital expenditure in respect of equipment and infrastructure.

It has been made clear by the Home Office that the timetable for the implementation of the new network has been delayed and a specific implementation date has not been provided adding considerable uncertainty to the process. It is also unclear if the final deadline for completing implementation in 2019/20 will be met. It is clear how much the transition to the new system will cost but any programme delays will have a significant cost for the policing service as a whole and individual forces within it. There are known capital costs to be met by Lancashire for this project and additional contributions to reserves have been made as an attempt to mitigate some of these costs.

➤ ***Review of the Police Funding Formula***

The Home Office intends to implement a revised funding formula in 2018/19 which will impact upon the amount of grant received by the Commissioner. The level of funding that Lancashire will receive will be entirely dependent upon the factors used to determine the new formula allocations and until more information is made available it is extremely difficult to forecast the specific impact on future years.

The previous attempt to deliver a new formula provided a range of potential outcomes for Lancashire from a loss of funding of £8.5m to a loss of funding of £25m. Clearly there is a significant risk that there could be a substantial loss of funding for Lancashire as a result of this process and the MTFS has an indicative impact at the lower end of the range shown above however until the Home Office provides a final version of the formula with specific allocations there remains a high level of uncertainty in the forecast for future years.

➤ ***Impact of cuts to Local Government funding***

Local Authorities face significant further budget reductions in future years. It is expected that this in turn will increase the demands faced by policing services particularly in relation to individuals with mental health issues. The impact of these changes is extremely difficult to forecast but as information becomes available it will be reflected in future iterations of the MTFS.

➤ ***Changing nature of Police demand***

The demand on police services is changing with a reduction in traditional high volume crimes. However, as recognised by the National Audit Office (NAO) crime levels are a limited measure of demand and do not show the full range of work carried out by the police. This situation is echoed in Lancashire, where recorded crime does not include all types of crime, it does not take account of complexity, nor does it take into consideration those emerging more complex risks and threats such as cyber-crime and child sexual exploitation, which have historically been under-reported. This changing profile within the context of continuing austerity requires the Constabulary to ensure that it places emphasis on driving out efficiencies wherever possible to increase the capacity to meet the challenge.

➤ ***Changes to the discount rate for pension costs***

The level of discount applied to employer's costs in respect of police pension payments in 2019/20 is to reduce which will in turn increase the costs for the employers. At this stage it is not possible to calculate the value of this change but it is expected to be a significant annual increase in cost.

Steve Freeman CPFA  
CFO to the Police and Crime  
Commissioner for Lancashire

28 July 2017

## STATEMENT OF RESPONSIBILITIES

### The Police and Crime Commissioner's Responsibilities

The Police and Crime Commissioner is required to:

- make arrangements for the proper administration of the financial affairs of the Office of the Police and Crime Commissioner and to secure that one of its officers has the responsibility for the administration of those affairs. In this instance, that officer is the chief financial officer.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

I approve these Statements of Accounts for the year-ending 31 March 2017

Clive Grunshaw  
Police and Crime Commissioner for Lancashire

28 July 2017

### The Chief Financial Officer's Responsibilities

The Police and Crime Commissioner's Chief Financial Officer is responsible for the preparation of the Statement of Accounts of the Police and Crime Commissioner (PCC) and the PCC Group in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing this Statement of Accounts, the PCC's CFO has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the local authority Code.

The PCC's CFO has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that this Statement of Accounts is that upon which the auditor should enter a certificate and an opinion. It presents a true and fair view of the financial position of the Police and Crime Commissioner for Lancashire (PCC) and the PCC Group and their transactions as at 31 March 2017 and for the year then ended.

Steve Freeman CPFA  
CFO to the Police and Crime Commissioner for Lancashire

28 July 2017

## PCC GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services for the Group in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations: this may be different from the accounting cost. The taxation position is shown in the movement in reserves statement

2015/16 (Restated)				2016/17		
Gross Exp £000	Gross Inc £000	Net Exp £000		Gross Exp £000	Gross Inc £000	Net Exp £000
			<b>Chief Constable:</b>			
213,028	(21)	<b>213,007</b>	Centralised Pay Budgets	204,536	(112)	<b>204,424</b>
19,231	(2,693)	<b>16,538</b>	Director of Resources*	15,890	(1,111)	<b>14,779</b>
11,817	(2,391)	<b>9,426</b>	ACC-Territorial Ops.*	10,239	(2,015)	<b>8,224</b>
10,261	(1,260)	<b>9,001</b>	ACC-Specialist Ops.*	11,879	(1,105)	<b>10,774</b>
3,005	(1,137)	<b>1,868</b>	Deputy Chief Constable*	2,999	(1,031)	<b>1,968</b>
36,663	(13,951)	<b>22,712</b>	Constabulary Non-Devolved budgets*	32,386	(14,925)	<b>17,461</b>
			<b>PCC:</b>			
1,995	(14)	<b>1,981</b>	Office of the PCC	1,835	(1)	<b>1,834</b>
1,904	-	<b>1,904</b>	Community Safety & Partnerships	662	-	<b>662</b>
-	-	-	Reducing Crime & Reoffending**	626	-	<b>626</b>
1,576	(1,636)	<b>(60)</b>	Victims and Witnesses	1,690	(1,740)	<b>(50)</b>
17,718	(134)	<b>17,584</b>	PCC Non-Devolved budgets*	16,784	(132)	<b>16,652</b>
<b>317,198</b>	<b>(23,237)</b>	<b>293,961</b>	<b>Net Cost of Services</b>	<b>299,526</b>	<b>(22,172)</b>	<b>277,354</b>
		<b>(51,974)</b>	Other operating Income & expenditure (Note 10)			<b>(46,802)</b>
		<b>97,178</b>	Financing & investment income & expenditure (Note 11)			<b>102,167</b>
		<b>(263,080)</b>	Taxation & non-specific grant income (Note 12)			<b>(263,135)</b>
		<b>76,085</b>	<b>(Surplus)/Deficit on Provision of Services</b>			<b>69,584</b>
		<b>(1,576)</b>	(Surplus)/deficit on revaluation of property, plant & equipment assets			<b>(8,227)</b>
		<b>(177,915)</b>	Re-measurements of pension assets/liabilities			<b>691,179</b>
		<b>(179,491)</b>	<b>Other Comprehensive (Income) &amp; Expenditure</b>			<b>682,952</b>
		<b>(103,406)</b>	<b>Total Comprehensive (Income) &amp; Expenditure</b>			<b>752,536</b>

\*The areas of responsibility covered in these budgets are as follows:

Director of Resources

Business support functions and ICT

ACC-Territorial Ops.

Divisional operational policing and contact management

ACC-Specialist Ops.

HQ crime and HQ operations

DCC

Human resources, professional standards and learning and development

CC Non-devolved

Includes collaboration, injury pensions, grant funded projects and other miscellaneous

PCC Non-devolved

In the main relates to revaluation gains/losses on the assets owned by the PCC which are used to provide the police and crime services to the public

\*\*Reducing crime and reoffending was reported with Community safety in 2015/16

## PCC COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices for the Office of the PCC, rather than the amount to be funded from taxation.

2015/16 (Restated)				2016/17 PCC		
Gross Exp £000	Gross Inc £000	Net Exp £000		Gross Exp £000	Gross Inc £000	Net Exp £000
1,995	(14)	1,981	Office of the PCC	1,649	(1)	1,648
1,904	-	1,904	Community Safety & Partnerships	626	-	626
-	-	-	Reducing Crime & Reoffending**	661	-	661
1,576	(1,636)	(60)	Victims and Witnesses	1,622	(1,740)	(118)
3,424	(134)	3,290	PCC Non-Devolved budgets	2,468	(132)	2,336
341,371	-	341,371	Funding provided by PCC to CC (Note 15)	333,888	-	333,888
-	(21,453)	(21,453)	Income managed within Constabulary budgets	-	(20,299)	(20,299)
350,270	(23,237)	327,033	<b>Net Cost of Services</b>	<b>340,914</b>	<b>(22,172)</b>	<b>318,742</b>
		(51,974)	Other operating Income & expenditure(Note 10)			(46,802)
		532	Financing & investment income & expenditure (Note 11)			570
		(263,080)	Taxation & non-specific grant income (Note 12)			(263,135)
		12,511	<b>(Surplus)/Deficit on Provision of Services</b>			<b>9,375</b>
		(1,576)	(Surplus)/deficit on revaluation of property, plant & equipment assets			(8,227)
		(249)	Re-measurements of PCC pension assets/liabilities			638
		(1,825)	<b>Other Comprehensive (Income) &amp; Expenditure</b>			<b>(7,589)</b>
		10,686	<b>Total Comprehensive (Income) &amp; Expenditure</b>			<b>1,786</b>

## PCC GROUP MOVEMENT IN RESERVES STATEMENT 2015/16 & 2016/17

This statement shows the movement in the year on the different reserves held by the PCC Group, analysed into usable reserves (those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or (deficit) on the provision of services line shows the true economic cost of providing the PCC Group's services, more details of which are shown in the comprehensive income & expenditure statement. These are different from the statutory amounts required to be charged to the General Fund balance for council tax setting purposes. The net increase/(decrease) before transfers to earmarked reserves line shows the statutory General Fund balance before any discretionary transfers undertaken by the PCC Group.

	Notes	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total PCC Group Reserves £000
<b>Balance at 31 March 2015</b>		<b>49,315</b>	<b>5,094</b>	-	<b>54,409</b>	<b>(2,929,823)</b>	<b>(2,875,414)</b>
<b>Movement in reserves during 2015/16:</b>							
Total Comprehensive Income & (Expenditure)		(76,085)	-	-	(76,085)	179,491	103,406
Adjs between accounting basis & funding basis under regulations	7	69,311	643	140	70,094	(70,094)	-
<b>Net Increase/(Decrease) in 2015/16</b>		<b>(6,774)</b>	<b>643</b>	<b>140</b>	<b>(5,991)</b>	<b>109,397</b>	<b>103,406</b>
<b>Balance at 31 March 2016</b>		<b>42,541</b>	<b>5,737</b>	<b>140</b>	<b>48,418</b>	<b>(2,820,426)</b>	<b>(2,772,008)</b>
<b>Movement in reserves during 2016/17:</b>							
Total Comprehensive Income & (Expenditure)		(69,584)	-	-	(69,584)	(682,952)	(752,536)
Adjs between accounting basis & funding basis under regulations	7	73,784	(5,374)	(140)	68,270	(68,270)	-
<b>Net Increase/(Decrease) in 2016/17</b>		<b>4,200</b>	<b>(5,374)</b>	<b>(140)</b>	<b>(1,314)</b>	<b>(751,222)</b>	<b>(752,536)</b>
<b>Balance at 31 March 2017</b>		<b>46,741</b>	<b>363</b>	-	<b>47,104</b>	<b>(3,571,648)</b>	<b>(3,524,544)</b>

NOTE: The General Fund Balance is held by the PCC in reserves that are earmarked for specific purposes or in a general reserve, as follows:

	Earmarked £000	General £000	Total £000
31 March 2017	36,868	9,873	46,741
31 March 2016	32,668	9,873	42,541
31 March 2015	39,442	9,873	49,315

## PCC SINGLE ENTITY MOVEMENT IN RESERVES STATEMENT 2015/16 and 2016/17

This statement shows the movement in the year on the different reserves held by the PCC analysed into usable reserves (those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or (deficit) on the provision of services line shows the true economic cost of providing the PCC services, more details of which are shown in the comprehensive income & expenditure statement. These are different from the statutory amounts required to be charged to the General Fund balance for council tax setting purposes. The Net increase/(decrease) before transfers to earmarked reserves line shows the statutory General Fund balance before any discretionary transfers undertaken by the PCC.

	Notes	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total PCC Group Reserves £000
<b>Balance at 31 March 2015</b>		<b>49,315</b>	<b>5,094</b>	-	<b>54,409</b>	<b>135,304</b>	<b>189,713</b>
<b>Movement in reserves during 2015/16:</b>							
Total Comprehensive Income & (Expenditure)		(12,511)	-	-	(12,511)	1,825	(10,686)
Adjs between accounting basis & funding basis under regulations	7	5,737	643	140	6,520	(6,520)	-
<b>Net Increase/(Decrease) in 2015/16</b>		<b>(6,774)</b>	<b>643</b>	<b>140</b>	<b>(5,991)</b>	<b>(4,695)</b>	<b>(10,686)</b>
<b>Balance at 31 March 2016</b>		<b>42,541</b>	<b>5,737</b>	<b>140</b>	<b>48,418</b>	<b>130,609</b>	<b>179,027</b>
<b>Movement in reserves during 2016/17:</b>							
Total Comprehensive Income & (Expenditure)		(9,375)	-	-	(9,375)	7,589	(1,786)
Adjs between accounting basis & funding basis under regulations	7	13,575	(5,374)	(140)	8,061	(8,061)	-
<b>Net Increase/(Decrease) in 2016/17</b>		<b>4,200</b>	<b>(5,374)</b>	<b>(140)</b>	<b>(1,314)</b>	<b>(472)</b>	<b>(1,786)</b>
<b>Balance at 31 March 2017</b>		<b>46,741</b>	<b>363</b>	-	<b>47,104</b>	<b>130,137</b>	<b>177,241</b>

## PCC GROUP BALANCE SHEET

The balance sheet shows the value as at the balance sheet date of assets and liabilities recognised by the PCC Group. The net assets (assets less liabilities) are matched by the reserves held by the Group.

31 March 2016		Notes	31 March 2017
£000			£000
159,346	Property, Plant & Equipment	17	162,299
421	Investment Property		462
5,902	Intangible Assets	18	6,532
5,000	Long Term Investments	27	-
<b>170,669</b>	<b>Long Term Assets</b>		<b>169,293</b>
-	Short Term Investments	27	5,000
115	Assets Held for Sale		657
790	Inventories		882
19,855	Short Term Debtors	20	32,415
35,820	Cash and Cash Equivalents	22	16,729
1,409	Payments in Advance		1,402
<b>57,989</b>	<b>Current Assets</b>		<b>57,085</b>
(500)	Short Term Borrowing	27	(1,100)
(30,803)	Short Term Creditors	21	(28,881)
(1,370)	Short-Term Provisions		(2,116)
(362)	Receipts in Advance		(2,148)
<b>(33,035)</b>	<b>Current Liabilities</b>		<b>(34,245)</b>
(2,047)	Long-Term Provisions		(1,053)
(18,154)	Long Term Borrowing	27	(17,054)
(901)	Long Term Creditors –General		(473)
(2,946,529)	Pensions' Liability	28	(3,698,097)
<b>(2,967,631)</b>	<b>Long Term Liabilities</b>		<b>(3,716,677)</b>
<b>(2,772,008)</b>	<b>Net Assets</b>		<b>(3,524,544)</b>
48,418	Usable Reserves		47,104
(2,820,426)	Unusable Reserves	9	(3,571,648)
<b>(2,772,008)</b>	<b>Total Reserves</b>		<b>(3,524,544)</b>

**PCC SINGLE ENTITY BALANCE SHEET**

The balance sheet shows the value as at the balance sheet date of assets and liabilities recognised by the PCC as a single entity. The net assets (assets less liabilities) are matched by the reserves held by the PCC.

<b>31 March 2016</b>		<b>Notes</b>	<b>31 March 2017</b>
<b>£000</b>			<b>£000</b>
159,346	Property, Plant & Equipment	17	162,299
421	Investment Property		462
5,902	Intangible Assets	18	6,532
5,000	Long Term Investments	27	-
<b>170,669</b>	<b>Long Term Assets</b>		<b>169,293</b>
-	Short Term Investments	27	5,000
115	Assets Held for Sale		657
790	Inventories		882
19,855	Short Term Debtors	20	32,415
35,820	Cash and Cash Equivalents	22	16,729
1,409	Payments in Advance		1,402
<b>57,989</b>	<b>Current Assets</b>		<b>57,085</b>
(500)	Short Term Borrowing	27	(1,100)
(25,547)	Short Term Creditors	21	(23,737)
(1,370)	Short-Term Provisions		(2,116)
(362)	Receipts in Advance		(2,148)
<b>(27,779)</b>	<b>Current Liabilities</b>		<b>(29,101)</b>
(2,047)	Long-Term Provisions		(1,053)
(18,154)	Long Term Borrowing	27	(17,054)
(901)	Long Term Creditors		(473)
(750)	Pensions Liability	28	(1,456)
<b>(21,852)</b>	<b>Long Term Liabilities</b>		<b>(20,036)</b>
<b>179,027</b>	<b>Net Assets</b>		<b>177,241</b>
48,418	Usable Reserves		47,104
130,609	Unusable Reserves	9	130,137
<b>179,027</b>	<b>Total Reserves</b>		<b>177,241</b>

## PCC GROUP CASH FLOW STATEMENT

The cash flow statement shows the changes in cash and cash equivalents of the PCC Group in the reporting period. The statement shows how the Group generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Group are funded by way of taxation and grant income or from the recipients of services provided by the Group. Investing activities represent the extent to which cash flows have been made for resources which are intended to contribute to the Group's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the Group.

<b>2015/16</b>		<b>2016/17</b>
<b>£000</b>		<b>£000</b>
76,085	Net (surplus)/deficit on the provision of services	69,584
(91,336)	Adjustments to net (surplus)/deficit on the provision of services for non-cash movements (Note 23)	(70,762)
3,704	Adjustments for items included in the net (surplus)/deficit on the provision of services that are investing & financing activities (Note 24)	4,712
<b>(11,547)</b>	<b>Net cash flows from Operating Activities</b>	<b>3,534</b>
10,772	Investing activities (Note 25)	14,820
737	Financing activities (Note 26)	737
<b>(38)</b>	<b>Net (Increase)/Decrease in cash &amp; cash equivalents</b>	<b>19,091</b>
<b>35,782</b>	<b>Cash &amp; cash equivalents at beginning of the reporting period</b>	<b>35,820</b>
<b>35,820</b>	<b>Cash &amp; cash equivalents at the end of the reporting period (Note 22)</b>	<b>16,729</b>

## PCC SINGLE ENTITY CASH FLOW STATEMENT

The cash flow statement shows the changes in cash and cash equivalents of the PCC in the reporting period. The statement shows how the PCC generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the PCC are funded by way of taxation and grant income or from the recipients of services provided by the PCC. Investing activities represent the extent to which cash flows have been made for resources which are intended to contribute to the PCC's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the PCC.

2015/16		2016/17
£000		£000
12,511	Net (surplus)/deficit on the provision of services	9,375
(27,762)	Adjustments to net (surplus)/deficit on the provision of services for non-cash movements (Note 23)	(10,553)
3,704	Adjustments for items included in the net (surplus)/deficit on the provision of services that are investing & financing activities (Note 24)	4,712
<b>(11,547)</b>	<b>Net cash flows from Operating Activities</b>	<b>3,533</b>
10,772	Investing activities (Note 25)	14,820
737	Financing activities (Note 26)	737
<b>(38)</b>	<b>Net (Increase)/Decrease in cash &amp; cash equivalents</b>	<b>19,091</b>
<b>35,782</b>	Cash & cash equivalents at beginning of the reporting period	<b>35,820</b>
<b>35,820</b>	<b>Cash &amp; cash equivalents at the end of the reporting period (Note 22)</b>	<b>16,729</b>

**NOTES TO THE ACCOUNTS - Index**

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**PCC SINGLE ENTITY**

Net Exp chargeable to Police General Fund	2015/16	Net Exp in the CIES		Net Exp chargeable to Police General Fund	2016/17	Net Exp in the CIES
	Adjs between the funding and accounting basis				Adjs between the funding and accounting basis	
£000	£000	£000		£000	£000	£000
1,957	24	1,981	Office of the PCC	1,719	(71)	1,648
1,904	-	1,904	Community Safety & Partnerships	626	-	626
-	-	-	Reducing Crime & Reoffending	661	-	661
(64)	4	(60)	Victims and Witnesses	(118)	-	(118)
(14,593)	17,883	3,290	PCC Non-Devolved budgets	(14,646)	16,982	2,336
341,371	-	341,371	Funding provided to the CC	333,888	-	333,888
(21,453)		(21,453)	Income collected by CC	(20,299)	-	(20,299)
<b>309,122</b>	<b>17,911</b>	<b>327,033</b>	<b>Net Cost of Services</b>	<b>301,831</b>	<b>16,911</b>	<b>318,742</b>
(302,348)	(12,174)	(314,522)	Other Income and Expenditure	(306,031)	(3,336)	(309,367)
<b>6,774</b>	<b>5,737</b>	<b>12,511</b>	<b>(Surplus)/Deficit on provision of service</b>	<b>(4,200)</b>	<b>13,575</b>	<b>9,375</b>
<b>(49,315)</b>			<b>Opening General Fund Balance</b>	<b>(42,541)</b>		
6,774			In year (surplus)/deficit	(4,200)		
<b>(42,541)</b>			<b>Closing General Fund Balance</b>	<b>(46,741)</b>		

The table below provided explains the differences between segmental figures that are shown in the Group Net Cost of Services chargeable to Police General Fund and those figures reported to the PCC at outturn which are shown under the same segmental headings in the 2016/17 Narrative Report (Page 6). Comparative information has not been provided for 2015/16 as these outturn figures are not included in the 2016/17 Narrative Report and hence do not have any value to the reader.

	Net Exp chargeable to Police General Fund	Amounts included in the 2016/17 Outturn figures (Page 6) but not included in Net Cost of Services in the CIES		Outturn Report
		Included in Other Income & Expenditure	Movement in reserves-either budgeted or approved in year	
	£000	£000	£000	£000
<b>Chief Constable:</b>				
Centralised Pay Budgets	194,208	-	-	<b>194,208</b>
Director of Resources	14,779	(407)	(156)	<b>14,216</b>
ACC-Territorial Ops.	8,224	-	(29)	<b>8,195</b>
ACC-Specialist Ops.	10,774	-	(43)	<b>10,731</b>
Deputy Chief Constable	1,968	-	(1)	<b>1,967</b>
Constabulary Non-Devolved budgets	69,065	(53,019)	986	<b>17,032</b>
<b>PCC:</b>				
Office of the PCC	1,905	-	-	<b>1,905</b>
Community Safety & Partnerships	626	-	490	<b>1,116</b>
Reducing Crime & Reoffending	662	-	-	<b>662</b>
Victims and Witnesses	(50)	-	-	<b>(50)</b>
PCC Non-Devolved budgets	(330)	8,916	(1,041)	<b>7,545</b>
<b>Net Cost of Services</b>	<b>301,831</b>	<b>(44,510)</b>	<b>206</b>	<b>257,527</b>

POLICE AND CRIME COMMISSIONER FOR LANCASHIRE 2016/17  
NOTES TO THE ACCOUNTS

The tables below provide a more detailed breakdown of the main adjustments to Net Expenditure Chargeable to Police General Fund to arrive at the amounts in the Comprehensive Income and Expenditure Statement.

**PCC GROUP**

Adjs between Funding and Accounting Basis 2015/16				Adjs between Funding and Accounting Basis 2016/17				
Adjs for capital purposes (Note A) £000	Net change for pensions adjs (Note B) £000	Other differences (Note C) £000	Total Adjs £000		Adjs for capital purposes (Note A) £000	Net change for pensions adjs (Note B) £000	Other differences (Note C) £000	Total Adjs £000
-	18,755	(356)	18,399	Centralised Pay Budgets	-	10,318	(102)	10,216
-	(51,447)	(23)	(51,470)	Constabulary Non-Devolved budgets	-	(51,594)	(10)	(51,604)
-	25	(1)	24	Office of the PCC	-	(52)	2	(50)
-	-	-	-	Community Safety & Partnerships	-	(9)	-	(9)
-	4	-	4	Victims and Witnesses	-	(13)	1	(12)
17,881	2	-	17,883	PCC Non-Devolved budgets	16,863	119	-	16,982
<b>17,881</b>	<b>(32,661)</b>	<b>(380)</b>	<b>(15,160)</b>	<b>Net Cost of Service</b>	<b>16,863</b>	<b>(41,231)</b>	<b>(109)</b>	<b>(24,477)</b>
(12,120)	96,676	(85)	84,471	Other income and expenditure from Expenditure and Funding Analysis	(3,246)	101,620	(113)	98,261
<b>5,761</b>	<b>64,015</b>	<b>(465)</b>	<b>69,311</b>	<b>Difference between General Fund deficit and CIES Deficit on Provision of Services</b>	<b>13,617</b>	<b>60,389</b>	<b>(222)</b>	<b>73,784</b>

PCC SINGLE ENTITY

Adjs between Funding and Accounting Basis 2015/16					Adjs between Funding and Accounting Basis 2016/17			
Adjs for capital purposes (Note A)	Net change for pensions adjs (Note B)	Other differences (Note C)	Total Adjs		Adjs for capital purposes (Note A)	Net change for pensions adjs (Note B)	Other differences (Note C)	Total Adjs
£000	£000	£000	£000		£000	£000	£000	£000
-	25	(1)	24	Office of the PCC	-	(52)	2	(50)
-	4	-	4	Victims and Witnesses	-	(9)	-	(9)
-	-	-	-	Community Safety & Partnerships	-	(13)	1	(12)
17,881	2	-	17,883	PCC Non-Devolved budgets	16,863	119	-	16,982
<b>17,881</b>	<b>31</b>	<b>(1)</b>	<b>17,911</b>	<b>Net Cost of Service</b>	<b>16,863</b>	<b>45</b>	<b>3</b>	<b>16,911</b>
(12,120)	31	(85)	(12,174)	Other income and expenditure from Expenditure and Funding Analysis	(3,246)	23	(113)	(3,336)
<b>5,761</b>	<b>62</b>	<b>(86)</b>	<b>5,737</b>	<b>Difference between General Fund deficit and CIES Deficit on Provision of Services</b>	<b>13,617</b>	<b>68</b>	<b>(110)</b>	<b>13,575</b>

Note A – Adjustments for Capital Purposes

Adjustments for capital purposes –this column adds in depreciation, amortisation of intangible assets and revaluation gains and losses in the service lines and for:

- Other Operating Income and Expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets. Also any change in the fair value of assets held for sale is reflect in this note;
- Financing and investment income and expenditure – the statutory charges for capital financing ie Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices;
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted for those receivable in year to those receivable without conditions or for which conditions were satisfied throughout the year. The taxation and Non-Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Note B - Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS19 *Employee Benefits* pension related expenditure and income.

- For services this represents the removal of the employer pension contributions made by the PCC and CC as allowed by statute and the replacement with current and past service costs;
- For Financing and investment income and expenditure the net interest on the defined benefit liability is charged to the CIES.

Note C – Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute.

- For services this represents the change in accrued employee benefits such as annual leave and time off in lieu;
- The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

## 2. EXPENDITURE AND INCOME ANALYSED BY NATURE

The PCC Group's expenditure and income is analysed by nature as follows:

	<b>2016/17</b>	2015/16
	<b>£000</b>	£000
<b>Expenditure</b>		
Employee expenses	238,644	254,175
Other service expenses	44,042	45,155
Depreciation and amortisation	14,514	14,294
Revaluation losses	2,349	3,588
Interest expenses	102,456	97,542
Write out of NCA sold in year	9,836	3,400
<b>Total expenditure</b>	<b>411,841</b>	<b>418,154</b>
<b>Income</b>		
Fees, charges and other service income	(14,142)	(16,017)
Interest and investment income	(248)	(345)
Income from council tax	(69,097)	(66,478)
Increase in FV of investment assets and assets held for sale	(41)	(23)
Receipts from sale of non-current assets	(3,636)	(959)
Government grants and contributions	(255,093)	(258,247)
<b>Total Income</b>	<b>(342,257)</b>	<b>(342,069)</b>
<b>DEFICIT ON PROVISION OF SERVICES</b>	<b>69,584</b>	<b>76,085</b>

The PCC's Single Entity expenditure and income is analysed by nature as follows:

	<b>2016/17</b>	2015/16
	<b>£000</b>	£000
<b>Expenditure</b>		
Employee expenses	1,052	980
Other service expenses	3,648	4,345
Revaluation losses	2,349	3,588
Interest expenses	859	896
Write out of NCA sold in year	9,836	3,400
PCC funding of CC	333,888	341,371
<b>Total expenditure</b>	<b>351,632</b>	<b>354,580</b>
<b>Income</b>		
Fees, charges and other service income	(14,142)	(16,017)
Interest and investment income	(248)	(345)
Income from council tax	(69,097)	(66,478)
Increase in FV of investment assets and assets held for sale	(41)	(23)
Receipts from sale of non-current assets	(3,636)	(959)
Government grants and contributions	(255,093)	(258,247)
<b>Total Income</b>	<b>(342,257)</b>	<b>(342,069)</b>
<b>DEFICIT ON PROVISION OF SERVICES</b>	<b>9,375</b>	<b>12,511</b>

### 3. **CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

Accounting policies are set out in notes to the accounts. In applying the accounting policies, the PCC Group has to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the statement of accounts are:

- There remains a significant degree of uncertainty about future levels of funding for local government and police and crime commissioners. However, the PCC has determined that this uncertainty is not sufficient to provide an indication that the assets of the PCC might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The PCC has to determine whether there is a group relationship between the PCC and other entities. The accountants have assessed each relationship that exists between the PCC and other entities in accordance with the accounting standards and the finance guidance provided by the Chartered Institute of Public Finance and Accountancy (CIPFA). The most significant of those relationships is the relationship with the CC of Lancashire who has been assessed as being a 100% subsidiary of the PCC and is included in the PCC Group accounts. The PCC's relationships with other entities can be found in Note 29. It has been determined that there are no further material group relationships that require incorporation into the PCC Group accounts.
- The PCC's valuer is required to exercise judgement in determining the carrying value of land and buildings on the PCC/PCC Group's balance sheet. The valuations are undertaken by appropriately qualified professionals who follow best practice. In addition to valuations which are undertaken in year consideration has been given to the local market conditions and available national data to assess whether there have been changes which would require a review of all asset values held at 31 March 2017. It was not considered that there was any such need in 2016/17.

### 4. **ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED**

The following amendments have been made to accounting standards or new accounting standards that have been issued on or before 1 January 2017 but not yet adopted by the Code.

Amendment to the reporting of pension fund scheme transaction costs;

Amendment to the reporting of investment concentration (see paragraph 6.5.5.1 (m) of the 2017/18 Code)

The above amendments are not expected to have any impact on the accounts of the PCC Group.

### 5. **ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY**

The statement of accounts contains estimated figures that are based on assumptions made by the PCC Group about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the PCC Group balance sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	The value of the PPE is dependent upon a professional judgement based on information available at the time of making the valuation. Due to changes in economic conditions a valuation taken on a different date could potentially result in a different valuation	Impossible to quantify as economic changes could lead to an increase or decrease in the value of PPE
Pensions Liability	Estimation of net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the PCC Group with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. Included within the Defined Benefits Note 28 is a sensitivity analysis that looks at the impact on net pensions' deficit of each of the significant actuarial assumptions. For instance, a 1% reduction in the discount rate assumption would result in an increase in the pension liability of the PCC Group of around £725m (£1.1m PCC single entity). However, the assumptions interact in complex ways. During 2016/17, the PCC Group's actuaries advised that the net pensions' liability had increased by £770m as a result of changes in financial assumptions. However, this included a reduction in discount rate of 1% for all schemes, with the estimated impact shown above, along with some smaller increases in assumptions around changes in inflation, pay and pension increases which act to further increase the liability overall.

## 6. EVENTS AFTER THE BALANCE SHEET DATE

### Accounting Policy

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the statement of accounts is adjusted to reflect such events;
- those that are indicative of conditions that arose after the reporting period – the statement of accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the statement of accounts.

The statement of accounts was authorised for issue by the PCC's CFO on 28 July 2017. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31st March 2017, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

**NOTES TO THE MOVEMENT IN RESERVES STATEMENT**

**7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATION**

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the PCC in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the PCC to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

**GENERAL FUND BALANCE**

The Police General Fund Balance is the statutory fund into which all receipts are required to be paid and out of which all liabilities are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the PCC is statutorily empowered to spend on his services or on capital investment at the end of the financial year.

**CAPITAL RECEIPTS RESERVE**

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at year-end.

**CAPITAL GRANTS UNAPPLIED**

The Capital Grants Unapplied Reserve holds the grants and contributions received towards capital projects for which the conditions have been met that would otherwise require the repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place

2016/17

PCC GROUP	Usable Reserves		
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000
<b>Adjustments to Revenue Resources</b>			
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:		-	-
• Pensions costs (transferred to (or from) the Pensions Reserve)	60,389	-	-
• Council Tax (transfers to or from the Collection Fund Adjustment Account)	(113)	-	-
• Untaken leave and Time Off In Lieu (transferred to the Accumulated Absences Account)	(109)	-	-
• Reversal of entries included in the deficit on provision of services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	25,157	-	-
<b>Total Adjustments to Revenue Resources</b>	<b>85,324</b>	<b>-</b>	<b>-</b>
<b>Adjustments between Revenue and Capital Resources</b>			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(3,211)	3,211	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(1,255)	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(7,074)	-	-
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(11,540)</b>	<b>3,211</b>	<b>-</b>
<b>Adjustments to Capital Resources</b>			
Use of the Capital Receipts Reserve to finance capital expenditure	-	(8,585)	-
Application of capital grants to finance capital expenditure	-	-	(140)
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>(8,585)</b>	<b>(140)</b>
<b>Total Adjustments</b>	<b>73,784</b>	<b>(5,374)</b>	<b>(140)</b>

PCC SINGLE ENTITIY	Usable Reserves		
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000
<b>Adjustments to Revenue Resources</b>			
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:			
• Pensions costs (transferred to (or from) the Pensions Reserve)	68	-	-
• Council Tax (transfers to or from the Collection Fund Adjustment Account)	(113)	-	-
• Untaken leave and Time Off In Lieu (transferred to the Accumulated Absences Account)	3	-	-
• Reversal of entries included in the deficit on provision of services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	25,157	-	-
<b>Total Adjustments to Revenue Resources</b>	<b>25,115</b>	<b>-</b>	<b>-</b>
<b>Adjustments between Revenue and Capital Resources</b>			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(3,211)	3,211	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(1,255)	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(7,074)	-	-
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(11,540)</b>	<b>3,211</b>	<b>-</b>
<b>Adjustments to Capital Resources</b>			
Use of the Capital Receipts Reserve to finance capital expenditure	-	(8,585)	-
Application of capital grants to finance capital expenditure	-	-	(140)
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>(8,585)</b>	<b>(140)</b>
<b>Total Adjustments</b>	<b>13,575</b>	<b>(5,374)</b>	<b>(140)</b>

2015/16

PCC GROUP	Usable Reserves		
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000
<b>Adjustments to Revenue Resources</b>			
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:			
• Pensions costs (transferred to (or from) the Pensions Reserve)	64,015	-	-
• Council Tax (transfers to or from the Collection Fund Adjustment Account)	(85)		
• Untaken leave and Time Off In Lieu (transferred to the Accumulated Absences Account)	(380)		
• Reversal of entries included in the deficit on provision of services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	18,225	-	140
<b>Total Adjustments to Revenue Resources</b>	<b>81,775</b>	<b>-</b>	<b>140</b>
<b>Adjustments between Revenue and Capital Resources</b>			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(671)	671	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(1,295)	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(10,498)	-	-
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(12,464)</b>	<b>671</b>	<b>-</b>
<b>Adjustments to Capital Resources</b>			
Use of the Capital Receipts Reserve to finance capital expenditure	-	(28)	-
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>(28)</b>	<b>-</b>
<b>Total Adjustments</b>	<b>69,311</b>	<b>643</b>	<b>140</b>

PCC SINGLE ENTITY	Usable Reserves		
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000
<b>Adjustments to Revenue Resources</b>			
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:			
<ul style="list-style-type: none"> <li>Pensions costs (transferred to (or from) the Pensions Reserve)</li> </ul>	62	-	-
<ul style="list-style-type: none"> <li>Council Tax (transfers to or from the Collection Fund Adjustment Account)</li> </ul>	(85)		
<ul style="list-style-type: none"> <li>Untaken leave and Time Off In Lieu (transferred to the Accumulated Absences Account)</li> </ul>	(1)		
<ul style="list-style-type: none"> <li>Reversal of entries included in the deficit on provision of services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)</li> </ul>	18,225	-	140
<b>Total Adjustments to Revenue Resources</b>	<b>18,201</b>	<b>-</b>	<b>140</b>
<b>Adjustments between Revenue and Capital Resources</b>			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(671)	671	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(1,295)	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(10,498)	-	-
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(12,464)</b>	<b>671</b>	<b>-</b>
<b>Adjustments to Capital Resources</b>			
Use of the Capital Receipts Reserve to finance capital expenditure	-	(28)	-
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>(28)</b>	<b>-</b>
<b>Total Adjustments</b>	<b>5,737</b>	<b>643</b>	<b>140</b>

8. **EARMARKED RESERVES**

Accounting Policy

All usable reserves belong to the PCC. These include both revenue and capital usable reserves. The PCC sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the Police General Fund balance in the movement in reserves statement. When expenditure to be financed from a reserve is incurred, it is charged against the relevant service line to score against the surplus/deficit on the provision of services in the CIES. The reserve is then appropriated back into the Police General Fund balance in the movement in reserves statement so that there is no net charge against council tax in the year that the expenditure is incurred.

**Transfers to/from Earmarked Reserves**

This note sets out the amounts set aside from the Police General Fund balances in earmarked reserves to provide financing for future expenditure plans, and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2016/17.

	Comparative Year 2015/16			2016/17			
	Balance at 31 March 2015	Transfers Out 2015/16	Transfers In 2015/16	Balance at 31 March 2016	Transfers Out 2016/17	Transfers In 2016/17	Balance at 31 March 2017
<b><u>Earmarked Reserves:</u></b>	<b>£000</b>	£000	£000	<b>£000</b>	£000	£000	<b>£000</b>
Devolved Financial Management	2,543	(432)	-	2,111	(59)	490	2,542
Capital Funding Reserve	6,617	(10,498)	7,179	3,298	(7,074)	5,234	1,458
Confiscation & Forfeiture Reserve	138	(47)	65	156	(68)	87	175
Clothing Development Reserve	611	(31)	75	655	(107)	75	623
Vehicle Maintenance Reserves	40	-	-	40	-	-	40
Early Debt Repayment Reserve	(1,500)	-	1,500	-	-	-	-
POCA Equalisation Reserve	1,208	(544)	-	664	(25)	13	652
Transition Reserve	21,244	(8,898)	1,391	13,737	(700)	6,438	19,475
Operational Policing Reserve	2,584	-	-	2,584	-	-	2,584
Strategic Investment Reserve	3,738	(198)	2,728	6,268	(124)	-	6,144
Road Safety Reserves	2,219	-	936	3,155	(885)	905	3,175
<b>Total Earmarked Reserves</b>	<b>39,442</b>	<b>(20,648)</b>	<b>13,874</b>	<b>32,668</b>	<b>(9,042)</b>	<b>13,242</b>	<b>36,868</b>

## 9. Unusable Reserves

### Accounting Policy

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement and employee benefits and they do not represent usable resources for the PCC; these reserves are explained in the relevant policies below.

PCC			PCC GROUP	
31 March 2016	31 March 2017		31 March 2017 £000	31 March 2016 £000
37,967	42,384	Revaluation Reserve	42,384	37,967
91,639	87,346	Capital Adjustment Account	87,346	91,639
(750)	(1,456)	Pensions Reserve	(3,698,097)	(2,946,529)
1,756	1,869	Collection Fund Adjustment Account	1,869	1,756
(3)	(6)	Accumulated Absences Account	(5,150)	(5,259)
<b>130,609</b>	<b>130,137</b>	<b>Total Unusable Reserves</b>	<b>(3,571,648)</b>	<b>(2,820,426)</b>

### Revaluation Reserve

The revaluation reserve contains the gains made by the PCC arising from increases in value of its property, plant and equipment and intangible assets. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost;
- Used in the provision of services and the gains are consumed through depreciation;
- Disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the capital adjustment account.

	PCC/PCC GROUP	
	31 March 2017 £000	31 March 2016 £000
<b>Balance at 1 April</b>	<b>37,967</b>	<b>38,239</b>
Upward revaluation of assets	10,060	1,847
Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services	(1,833)	(271)
Surplus or deficit on revaluation of non-current assets not posted to the surplus/deficit on the provision of services	8,227	1,576
Difference between fair value depreciation and historical cost depreciation	(959)	(991)
Accumulated gains on disposed assets	(2,851)	(857)
Other amounts written off to the capital adjustment account		
Amount written off to the capital adjustment account	(3,810)	(1,848)
<b>Balance at 31 March</b>	<b>42,384</b>	<b>37,967</b>

## Capital Adjustment Account

The capital adjustment account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the CIES (with reconciling postings from the revaluation reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the PCC as finance for the costs of acquisition, construction and enhancement. The account contains accumulated gains and losses on Investment Assets and also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the revaluation reserve was created to hold such gains.

	PCC/PCC GROUP	
	31 March 2017	31 March 2016
	£000	£000
<b>Balance at 1 April</b>		<b>96,335</b>
Reversal of items relating to capital expenditure debited or credited to the comprehensive income and expenditure statement:		
Charges for depreciation and impairment of non-current assets	(10,916)	(11,702)
Revaluation (gains)/losses on property, plant and equipment	(2,349)	(3,588)
Amortisation of intangible assets	(3,110)	(2,592)
Revenue expenditure funded by capital under statute	(488)	-
Amounts of non-current assets written off on disposal or sale as part of gain/loss on disposal to the CIES	(9,836)	(3,400)
	(26,699)	(21,282)
Adjusting amounts written out of the revaluation reserve	3,810	1,849
<b>Net written out amount of the cost of non-current assets consumed in the year</b>	<b>(22,889)</b>	<b>(19,433)</b>
Capital financing applied in year:		
Use of the capital receipts reserve to finance new capital expenditure	8,585	28
Capital grants and contributions credited to the CIES that have been applied to capital financing	1,501	2,893
Application of grants to capital financing from the capital grant unapplied account	140	-
Statutory provision for the financing of capital investment charged against the General Fund balance	1,255	1,295
Capital expenditure charged against the General Fund balance	7,074	10,498
	18,555	14,714
Movement in the market value of investment properties and assets held for sale debited or credited to the CIES	41	23
Other adjustments		-
<b>Balance at 31 March</b>	<b>87,346</b>	<b>91,639</b>

## Pensions Reserve

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits in accordance with statutory provisions. The PCC and PCC Group account for post-employment benefits in the CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the PCC makes the employer's contributions to the pension funds or eventually pays any pensions for which he is directly responsible. The negative balance on the pensions reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

PCC			PCC GROUP	
31 March 2016 £000	31 March 2017 £000		31 March 2017 £000	31 March 2016 £000
(937)	(750)	<b>Balance at 1 April</b>	(2,946,529)	(3,060,429)
249	(638)	Re-measurements of the net defined benefit (liability)/ asset	(691,179)	177,915
(166)	(251)	Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services	(152,313)	(158,899)
104	183	Employer's pensions contribution and direct payments to pensioners payable in the year	91,924	94,884
<b>(750)</b>	<b>(1,456)</b>	<b>Balance at 31 March</b>	<b>(3,698,097)</b>	<b>(2,946,529)</b>

## Collection Fund Adjustment Account

The collection fund adjustment account manages the difference arising from the recognition of council tax income in the CIES as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the Police General Fund from the collection fund.

	31 March 2017 £000	31 March 2016 £000
<b>Balance at 1 April</b>	<b>1,756</b>	<b>1,671</b>
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	113	85
<b>Balance at 31 March</b>	<b>1,869</b>	<b>1,756</b>

## Accumulated Absences Account

The accumulated absences account absorbs the differences that would otherwise arise on the Police General Fund balance from accruing for compensated absences earned but not taken in the year, eg annual leave entitlement and police officers lieu time carried forward at 31 March. Statutory arrangements require that the impact on the General Fund balance is neutralised by transfers to or from the account.

PCC			PCC GROUP	
31 March 2016 £000	31 March 2017 £000		31 March 2017 £000	31 March 2016 £000
(4)	(3)	Balance at 1 April	(5,259)	(5,639)
4	3	Settlement or cancellation made at the end of the preceding year	5,259	5,639
(3)	(6)	Amounts accrued at the end of the current year	(5,150)	(5,259)
1	(3)	Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	109	380
(3)	(6)	Balance at 31 March	(5,150)	(5,259)

### Notes to the Comprehensive Income and Expenditure Statement

#### 10. Other operating income and expenditure

	2016/17 £000	2015/16 £000
Loss/(Gain) on the disposal of non-current assets	6,223	2,455
Changes in fair value of assets held for sale	-	(4)
Home Office pension grant	(53,025)	(54,425)
<b>Total</b>	<b>(46,802)</b>	<b>(51,974)</b>

#### 11. Financing and investment income and expenditure

PCC			PCC GROUP	
2015/16 £000	2016/17 £000		2016/17 £000	2015/16 £000
865	836	Interest payable and similar charges	836	865
31	23	Net interest on the defined benefit pensions liability	101,620	96,677
(345)	(248)	Interest receivable and similar income	(248)	(345)
(19)	(41)	Changes in fair value of investment properties	(41)	(19)
<b>532</b>	<b>570</b>	<b>Total</b>	<b>102,167</b>	<b>97,178</b>

## 12. Taxation and non-specific grant income

### Collection Fund Accounting Policy

To reflect that billing authorities act as agents for major preceptors in collecting their share of council tax, council tax transactions and balances will be allocated between billing authorities and major preceptors. Thus, the risks and rewards that the amount of council tax collected could vary from that predicted will be shared proportionately by the billing authorities and major preceptors. The difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund shall be taken to the collection fund adjustment account and included as a reconciling item in the movement in reserves statement. A debtor/creditor position between billing authorities and major preceptors is required to be recognised for the cash collected by the billing council from council tax debtors that belongs proportionately to the billing authorities and the major preceptors. This is because the net cash paid to each major preceptor in the year will not be its share of cash collected from council taxpayers. The effect of any bad debts written off or movement in the impairment provision are also shared proportionately.

Taxation and non-specific grant income included in the CIES is as follows:

	<b>2016/17</b>	2015/16
	<b>£000</b>	£000
Council tax income	69,097	66,478
Capital grants and contributions	1,501	3,034
Non ring-fenced government grants	192,537	193,568
<b>Total</b>	<b>263,135</b>	<b>263,080</b>

## 13. Government grants and contributions

### Accounting Policy

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the PCC/PCC Group when there is reasonable assurance that the Group will comply with the conditions attached to the payments, and the grants or contributions will be received.

Amounts recognised as due to the PCC Group are not credited until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable to revenue grants and contributions) or taxation and non-specific grant income (non-ringfenced revenue grants and all capital grants) in the CIES.

Where capital grants are credited to the CIES, they are reversed out of the Police General Fund balance in the movement in reserves statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied reserve. Where it has been applied, it is posted to the capital adjustment account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

The PCC/PCC Group credited the following grants and contributions to the CIES in 2016/17:

	2016/17 £000	2015/16 £000
<b>Credited to Taxation and Non-Specific Grant Income:</b>		
Police Grant	192,537	193,568
Capital Grant and contributions	1,501	3,034
<b>Total</b>	<b>194,038</b>	<b>196,602</b>
<b>Credited to Other Income and Expenditure:</b>		
Home Office grant payable towards the cost of retirement benefits	<b>53,025</b>	<b>54,425</b>
<b>Credited to Services:</b>		
Counter Terrorism	1,938	2,213
Police Innovation Fund	2,859	1,954
Ministry of Justice Victims Funding	1,740	1,636
Share of grant funding received by lead forces in collaboration arrangements	527	575
Other small grants	966	842
<b>Total</b>	<b>8,030</b>	<b>7,220</b>

#### 14. Capital Charges and Fair Value Charge to Chief Constable

All assets (land, buildings, equipment etc.) are owned by the PCC. Therefore, the costs of ownership for these assets, such as depreciation, are initially charged to the PCC's statement of accounts. However, it is necessary to reflect the fact that the CC has had use of these assets during 2016/17. Using the principle of 'substance over form', a fair value proxy cost will be included in the CC's CIES to reflect the utilisation of the PCC- owned fixed assets which mirrors depreciation of property, plant and equipment, amortisation of intangible assets and impairment from obsolescence or physical damage.

The following transactions have been made in the PCC's cost of service relating to the movement in balance sheet value of the PCC's property plant and equipment.

	2016/17 £000	2015/16 £000
Depreciation of PPE	10,916	11,702
Amortisation of intangible assets	3,110	2,592
Revenue expenditure funded by capital under statute	488	-
Fair value recharge to CC to reflect his use of the assets to deliver the policing service	(14,514)	(14,294)
Revaluation losses	2,349	3,588
<b>Total charges in respect of property, plant and equipment &amp; intangible assets</b>	<b>2,349</b>	<b>3,588</b>

Revaluation gains and losses remain with the PCC as they are not deemed to reflect cost of use but are more a reflection of the economic conditions, which should remain with the PCC.

#### 15. PCC Funding of the Chief Constable

##### Accounting Policy

The PCC's funding of CC's expenditure takes the form of "Intragroup funding" and is shown as income in the CC's CIES and expenditure in the PCC's CIES. There is no actual transfer of cash involved in this transaction as all the resources belong to the PCC. The CC is, in effect, consuming the resources

of the PCC but, for the purpose of reflecting the arrangement the transactions are reported as such. The accruals concept applies equally to the Intragroup Funding in that revenue is funded upon recognition on the understanding that the PCC has responsibility for working capital balances.

Funding for PCC resources consumed at the request of the CC represents the funding of the in-year costs recognised in the CC CIES and is calculated as follows:

<b>2015/16</b>		<b>2016/17</b>
<b>£000</b>		<b>£000</b>
404,945	Provision of services deficit in CC CIES prior to PCC funding	394,097
(158,733)	Adjustment for net IAS19 pensions charges included in cost of service but funded by CC pensions reserve	(152,062)
94,780	Replace with actual employer contribution funded by PCC	91,741
379	Adjustment for movement in accumulated absence accrual funded by CC accumulated absence reserve	112
<b>341,371</b>	<b>PCC funding for PCC resources consumed at the request of the CC</b>	<b>333,888</b>
	Consisting of:	
14,294	Fair value adjustment for CC consumption of PCC property & equipment	14,514
327,077	Other resources	319,374
<b>341,371</b>	<b>Total PCC resources consumed at the request of the CC</b>	<b>333,888</b>

## 16. Officers' Remuneration

### Accounting Policy Short term Employee Benefits

#### ***Benefits payable during employment***

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Group. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year (referred to as accumulated absences). The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit.

#### ***Termination Benefits***

Termination benefits are amounts payable to police staff, including PCSOs, as a result of a decision by the PCC Group to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to surplus or deficit on the provision of services in the CIES at the earlier of when the PCC Group can no longer withdraw the offer of those benefits or when the PCC Group recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the Police General Fund balance to be charged with the amount payable by the Group to the Pension Fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the movement in reserves statement, appropriations are required to and from the pensions reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

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The remuneration paid to the senior employees of the Office of the PCC and the PCC group as a whole is as follows:

**Senior Officers and Relevant Police Officers 2016-17**

Post Holder Information (Post title only)	Notes	Salary (including allowances)	Bonuses	Expense Allowances	Benefits in Kind	Total Remuneration excl. pension contribs	Pension Contribs.	Total Remuneration
		£	£	£	£	£	£	£
<b><u>OFFICE OF THE PCC</u></b>								
Police & Crime Commissioner	Note 1	85,000	-		4,993	89,993	9,775	99,768
Director of the Office of the PCC & Monitoring Officer		83,810	-	4,417	-	88,227	9,638	97,865
Crime, Re-offending and Criminal Justice Lead	Note 2	12,751	-	-	-	12,751	1,466	14,217
Governance and Policing Lead	Note 2	11,114	-	310	-	11,424	1,278	12,702
Procurement and Commissioning Lead	Note 2	12,751	-	-	-	12,751	1,466	14,217
Victims and Vulnerable People Lead	Note 2	11,114	-	310	-	11,424	1,278	12,702
<b><u>LANCASHIRE CONSTABULARY</u></b>								
Chief Constable -S Finnigan		164,463	-	-	3,384	<b>167,847</b>	-	<b>167,847</b>
Deputy Chief Constable		132,112	-	-	5,431	<b>137,543</b>	31,285	<b>168,828</b>
Assistant Chief Constable-Territorial Divs. & Criminal Justice		108,872	-	-	5,896	<b>114,768</b>	25,662	<b>140,430</b>
Assistant Chief Constable-Specialist Ops.		105,453	-	-	4,506	<b>109,959</b>	24,931	<b>134,890</b>
Director of Resources		114,661	-	-	8,968	<b>123,629</b>	13,186	<b>136,815</b>

Note 1 The PCC is an elected official and has voluntarily disclosed his remuneration in this note. The annual salary for this post is £85,000 and is set by the Home Office.

Note 2 A restructure of the Office of the PCC came into effect from 1 January 2017. These posts are new posts and report directly to the Director of the Office of the PCC. The remuneration included covers the period 1 January to 31 March 2017. The full year equivalent costs of these posts will be reflected in the 2017/18 note.

POLICE AND CRIME COMMISSIONER FOR LANCASHIRE 2016/17  
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**Senior Officers and Relevant Police Officers 2015-16**

Post Holder Information (Post title only)	Notes	Salary (including allowances)	Bonuses	Expense Allowances	Benefits in Kind	Total Remuneration excl. pension contribs	Pension Contribs.	Total Remuneration
		£	£	£	£	£	£	£
<b><u>OFFICE OF THE PCC</u></b>								
Police & Crime Commissioner	Note 1	85,000	-	-	4,559	<b>89,559</b>	9,775	<b>99,334</b>
Director of the Office of the PCC & Monitoring Officer		81,904	-	5,300	-	<b>87,204</b>	9,419	<b>96,623</b>
<b><u>LANCASHIRE CONSTABULARY</u></b>								
Chief Constable -S Finnigan		162,958	-	-	3,384	<b>166,342</b>	-	<b>166,342</b>
Deputy Chief Constable		130,829	-	-	5,396	<b>136,225</b>	30,976	<b>167,201</b>
Assistant Chief Constable-Territorial Divs. & Criminal Justice		104,201	-	-	5,899	<b>110,100</b>	24,532	<b>134,632</b>
Assistant Chief Constable-Specialist Ops.		101,336	-	-	4,476	<b>105,812</b>	23,935	<b>129,747</b>
Director of Resources		99,303	-	-	8,387	<b>107,690</b>	11,420	<b>119,110</b>

Note 1 The PCC is an elected official and has voluntarily disclosed his remuneration in this note. The annual salary for this post is £85,000 and is set by the Home Office.

Note 2 The Chief Financial Officer of the PCC is not a direct employee of the OPCC but is delivered under a partnership arrangement. If relevant, the salary costs will appear on the disclosure of the employing authority.

The PCC Group employed an estimated 4,860 full time equivalents during 2016/17 (4,800 in 2015/16). In addition to the senior and relevant officers outlined in the note above, the following employees received remuneration of greater than £50,000 for the year (excluding employer's pension contributions):-

	2016/17			2015/16		
	Police Officers	Police Staff	Total	Police Officers	Police Staff	Total
£165,000 - £169,999	-	-	-	-	1	1
£135,000 - £139,999	-	-	-	1	-	1
£125,000 - £129,999	-	-	-	-	1	1
£120,000 - £124,999	-	-	-	-	-	-
£115,000 - £119,999	-	-	-	1	1	2
£110,000 - £114,999	-	-	-	4	-	4
£105,000 - £109,999	-	1	1	3	-	3
£100,000 - £104,999	-	-	-	3	-	3
£95,000 - £99,999	-	-	-	4	-	4
£90,000 - £94,999	-	-	-	5	-	5
£85,000 - £89,999	3	1	4	12	-	12
£80,000 - £84,999	7	-	7	14	-	14
£75,000 - £79,999	7	1	8	17	-	17
£70,000 - £74,999	7	2	9	9	3	12
£65,000 - £69,999	5	-	5	22	2	24
£60,000 - £64,999	9	1	10	13	2	15
£55,000 - £59,999	74	5	79	85	3	88
£50,000 - £54,999	131	9	140	113	7	120
<b>Total</b>	<b>243</b>	<b>20</b>	<b>263</b>	<b>306</b>	<b>20</b>	<b>326</b>

NB Remuneration includes gross pay, before the deduction of employees' pension contributions, together with benefits declared to HM Revenue and Customs on form P11D and redundancy payments paid in the year. It does not include employers' pension contributions. Senior Officers posts that are included in the officers' remuneration note have been excluded.

The table above includes a number of police officers and police staff who appear only as a consequence of a one-off exit payment (redundancy payments for police staff and payments made under the Voluntary Exit Scheme for police officers). The numbers and banding affected are shown below:

POLICE AND CRIME COMMISSIONER FOR LANCASHIRE 2016/17  
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	2016/17		2015/16		
	Police Staff	Total	Police Officers	Police Staff	Total
£165,000 - £169,999	-	-	-	1	1
£135,000 - £139,999	-	-	1	-	1
£125,000 - £129,999	-	-	-	1	1
£120,000 - £124,999	-	-	-	-	-
£115,000 - £119,999	-	-	1	1	2
£110,000 - £114,999	-	-	4	-	4
£105,000 - £109,999	1	1	3	-	3
£100,000 - £104,999	-	-	3	-	3
£95,000 - £99,999	-	-	3	-	3
£90,000 - £94,999	-	-	5	-	5
£85,000 - £89,999	1	1	5	-	5
£80,000 - £84,999	-	-	9	-	9
£75,000 - £79,999	-	-	7	-	7
£70,000 - £74,999	-	-	6	2	8
£65,000 - £69,999	-	-	10	2	12
£60,000 - £64,999	-	-	10	2	12
£55,000 - £59,999	2	2	9	1	10
£50,000 - £54,999	-	-	9	2	11
	4	4	85	12	97

Included in the tables above are police staff employed directly by the Office of the Police and Crime Commissioner (OPCC). Those receiving remuneration during 2016/17 in excess of £50,000, other than those already disclosed individually by job title in the previous tables are as follows:

	2016/17	2015/16
£65,000 - £69,999**	-	1
£50,000 - £54,999	-	2
Total	-	3

\*\* In this instance the employee involved only appeared in this table as a consequence of a one-off redundancy payment.

## Exit packages

The numbers of exit packages for the PCC Group, with total cost per band and total cost of the compulsory redundancy and other departures, are set out in the table below. It should be noted that the exit package costs shown in the table reflect the total cost to the organisation including, where appropriate, cost of pension enhancements:

Bandings	Number of Compulsory Redundancies	Number of Other Departures	Voluntary Exit Scheme (Police Officers)	Total cost of exit packages in each band	£
£0 - £19,999	1	10	2	102,828	
£20,000 - £39,999	-	8	1	260,725	
£40,000 - £59,999	2	2	-	194,974	
£60,000 - £150,000	3	-	-	295,534	
<b>Total</b>	<b>6</b>	<b>20</b>	<b>3</b>	<b>854,061</b>	

Exit Packages included in the above note that relate to the Office of the PCC are as follows:

Bandings	Number of Compulsory Redundancies	Number of Other Departures	Total cost of exit packages in each band	£
£0 - £150,000	1	1	135,194	

2015/16 Comparators:

PCC Group:

Bandings	Number of Compulsory Redundancies	Number of Other Departures	Voluntary Exit Scheme (Police Officers)	Total cost of exit packages in each band	£
£0 - £19,999	-	19	17	404,138	
£20,000 - £39,999	1	8	40	1,458,229	
£40,000 - £59,999	1	5	32	1,893,320	
£60,000 - £79,999	-	4	11	999,748	
£80,000 - £99,999	1	1	1	259,129	
£100,000 - £349,999	-	3	-	547,561	
<b>Total</b>	<b>3</b>	<b>40</b>	<b>101</b>	<b>5,562,125</b>	

Exit Packages included in the above note that relate to the Office of the PCC are as follows:

Bandings	Number of Compulsory Redundancies	Number of Other Departures	Voluntary Exit Scheme (Police Officers)	Total cost of exit packages in each band	£
£20,000 - £59,999	-	2	-	72,638	

## **Balance Sheet Notes**

### **17. Property, Plant and Equipment**

#### Accounting Policies

Physical assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

#### **Recognition**

Expenditure on the acquisition, creation or enhancement of property, plant and equipment in excess of £15,000 is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the PCC Group and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie repairs and maintenance) is charged as an expense when it is incurred.

#### **Measurement**

For assets that are purchased they are initially recognised at cost. The cost comprises:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be operational.

Assets that are being constructed by the PCC Group will initially be recognised at cost. Only those costs that can be directly attributable to bringing the asset into operation will be capitalised. The PCC does not capitalise borrowing costs incurred whilst assets are under construction.

Assets are then carried in the PCC and PCC Group balance sheets using the following measurement bases:

- assets under construction – depreciated historical cost
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets, principally furniture, equipment and vehicles that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

All assets held on a valuation basis, as determined by the code of practice, have been reviewed within a four-year period by RICS qualified surveyors at Lambert Smith Hampton, for valuations carried out during 2013/14, and Lancashire County Council for valuations carried out after that date. The structured basis of the revaluations was reviewed during 2016/17 and is moving towards a three year review period. By the end of 2017/18 all assets will have been revalued within this period to ensure that the carrying amounts are not materially different from fair value at the balance sheet date. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains unless the gain reverses a loss previously charged to a service. In this case the gain up to the amount of the loss will be credited to the CIES.

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CIES.

The revaluation reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. The revaluation reserve was created with effect from 1 April 2007 with a zero opening balance. Gains arising before that date have been consolidated into the capital adjustment account.

### **Impairment**

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. No impairments were identified in 2016/17.

### **Depreciation**

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land ) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles and IT equipment, - straight line basis over lives which are assessed individually by professional staff within the Constabulary.
- furniture and equipment other than IT equipment is depreciated over 10 years, unless it is known that a different period is required.

The following useful lives and depreciation rates have been used in the calculation of depreciation:

Property and property components:

- Under 10 years
- 10-14 years
- 15-20 years
- 20-29 years
- 30-39 years
- 40-49 years
- 50 years and over

Depreciation is based on the lower limit. Properties over 50 years are depreciated over a 50 year life, while properties under ten years are depreciated based on an assessment of their actual life. The lives of vehicles, IT assets and intangibles such as software licences are assessed individually by professional staff within the Constabulary. Furniture and equipment other than computer equipment is depreciated over ten years, unless it is known that a different period is required.

Where an item of property, plant and equipment asset has major components whose costs are significant in relation to the total cost of the item, the components are depreciated separately. In considering whether or not there is a component the policy followed is:

- The land element will continue to be considered as a separate asset with its own valuation which, are not subject to depreciation;
- The asset will be reviewed and any part of the asset which can be identified as a self-contained building will be subject to a separate valuation and asset life. This will ensure that any part of the overall asset which is not of the same construction quality has a specific use and/or economic life identified;
- For any building with a value above £1m consideration will be given as to whether or not there is any significant part which requires a separate component. This will take into consideration whether there is any aspect of the construction, such as roof, windows, services or any specialist item which has a substantially different asset life. For the purpose of this exercise it is considered that an element that represents more than 25% of the valuation is considered significant;
- Any equipment which is a fixture of the building will be included within the overall asset valuation. There will be a separate valuation if it is likely to exceed 25% of the property value.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

### **Disposals and Non-Current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the other operating expenditure line in the CIES. Gains in fair value are recognised only up to the amount of any previous losses recognised in the surplus or deficit on the provision of services. Depreciation is not charged on assets held for sale. For valuations undertaken from 1<sup>st</sup> April 2015 onwards IFRS 13 introduced the new definition of Fair Value. The valuations to be provided under this definition measure the value of each asset's highest and best use.

If assets no longer meet the criteria to be classified as assets held for sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the balance sheet (whether property, plant and equipment or assets held for sale) is written off to the other operating expenditure line in the CIES as part of the gain or loss on disposal. Receipts from disposal (if any) are credited to the same line in the CIES also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of the disposal). Any revaluation gains accumulated for the asset in the revaluation reserve are transferred to the capital adjustment account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the capital receipts reserve, and can then only be used for new capital investment or be set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the Police General Fund balance in the movement in reserve statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the capital adjustment account from the General Fund balance in the movement in reserve statement.

### Charges to Revenue for Non-Current Assets

The PCC and PCC Group CIES are charged with the following amounts to record the real cost of holding non-current assets during the year:

Depreciation attributable to the assets used by the service;

Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the revaluation reserve against which the losses can be written off;

Amortisation of intangible non-current assets attributable to the service.

The PCC is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, he is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined in accordance with statutory guidance; this is known as the minimum revenue provision (MRP). Depreciation, impairment and revaluation losses and amortisations are therefore reversed to the capital adjustment account via the movement in reserves statement and replaced by the MRP.

#### Movements in 2016/17:

	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Assets under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000
<b>Cost or Valuation</b>				
At 1 April 2016	156,462	44,985	620	202,067
Additions	383	10,250	7,767	18,400
Revaluation increases/(decreases) recognised in the revaluation reserve.	(529)	405	-	(124)
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(2,531)	-	-	(2,531)
De-recognition – disposals	(11,100)	(80)	-	(11,180)
Assets reclassified as "Held for sale"	(542)	-	-	(542)
<b>At 31 March 2017</b>	<b>142,143</b>	<b>55,560</b>	<b>8,387</b>	<b>206,090</b>

<b>Accumulated Depreciation &amp; Impairment</b>				
At 1 April 2016	(14,886)	(27,835)	-	(42,721)
Depreciation charge	(4,297)	(6,621)	-	(10,918)
Depreciation written out to the revaluation reserve	8,322	-	-	8,322
Depreciation written out to surplus/deficit on the provision of services	182	-	-	182
De-recognition - disposals	1,344	-	-	1,344
<b>At 31 March 2016</b>	<b>(9,335)</b>	<b>(34,456)</b>	<b>-</b>	<b>(43,791)</b>

<b>Net Book Value</b>				
At 31 March 2017	132,808	21,104	8,387	162,299
At 31 March 2016	141,576	17,150	620	159,346

Movements in 2015/16:

	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Assets under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000
<b>Cost or Valuation</b>				
At 1 April 2015	163,470	37,507	-	200,977
Additions	209	7,543	620	8,372
Revaluation increases/(decreases) recognised in the revaluation reserve.	719			719
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(4,674)			(4,674)
De-recognition – disposals	(3,262)	(65)		(3,327)
<b>At 31 March 2016</b>	<b>156,462</b>	<b>44,985</b>	<b>620</b>	<b>202,067</b>

<b>Accumulated Depreciation &amp; Impairment</b>				
At 1 April 2015	(12,266)	(20,933)	-	(33,199)
Depreciation charge	(4,799)	(6,902)		(11,701)
Depreciation written out to the revaluation reserve	857			857
Depreciation written out to surplus/deficit on the provision of services	1,086			1,086
De-recognition - disposals	236			236
<b>At 31 March 2016</b>	<b>(14,886)</b>	<b>(27,835)</b>	<b>-</b>	<b>(42,721)</b>

<b>Net Book Value</b>				
<b>At 31 March 2016</b>	<b>141,576</b>	<b>17,150</b>	<b>620</b>	<b>159,346</b>
<b>At 31 March 2015</b>	<b>151,204</b>	<b>16,574</b>	<b>-</b>	<b>167,778</b>

### Capital Commitments

At 31 March 2017 the PCC Group has entered into a number of capital contracts in respect of expenditure to be incurred in 2017/18 and future years, budgeted to cost £22.4m. Similar commitments at 31 March 2016 were £6.6m.

### Effects of Changes in Estimates

In 2016/17 the PCC made no material changes to its accounting estimates for property, plant and equipment.

### Revaluations

The PCC Group carries out a rolling programme that ensures that all property, plant and equipment required to be measured at fair value is re-valued sufficiently regularly to ensure that the carrying amount is not materially different from fair value at the balance sheet date. This has previously been over a five year cycle however this cycle has been reviewed during this year and is now subject to a three year cycle. All assets will meet this three year criteria by 2017/18. Revaluations in 2016/17 were carried out by RICS qualified surveyors employed by Lancashire County Council. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Where non-property assets, principally furniture, equipment and vehicles that have short useful lives or low values (or

both), depreciated historical cost basis is used as a proxy for fair value and these are not therefore subject to revaluation.

The following table shows the progress of the PCC Group's rolling programme for the revaluations of property plant and equipment.

	<b>Land &amp; Buildings</b>	<b>Vehicles, Plant, Furniture &amp; Equipment</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Carried at historical cost	383	55,560	55,943
Valued at fair value as at:			
31 March 2017	66,007	-	66,007
31 March 2016	11,920	-	11,920
31 March 2015	2,813	-	2,813
31 March 2014	61,021	-	61,021
<b>Total Cost or valuation</b>	<b>142,143</b>	<b>55,560</b>	<b>197,703</b>

## 18. Intangible Assets

### Accounting Policy

Expenditure on non-monetary assets that do not have physical substance but are controlled by the authority as a result of past events (eg software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the PCC.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the PCC can be determined by reference to an active market. In practice, no intangible asset held by the authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the CIES. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the CIES. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the CIES.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

The table below shows the movement on Intangible Assets:

	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
Balance at start of year:		
Gross carrying amounts	9,545	5,001
Accumulated depreciation	(3,643)	(2,188)
<b>Net carrying amount at start of year</b>	<b>5,902</b>	<b>2,813</b>
Additions- purchases	3,710	5,681
Amortisation	(3,110)	(2,592)
Revaluation	30	
Adjustment to gross carrying amount to reflect disposals and obsolete items	(826)	(1,137)
Adjustment to accumulated depreciation to reflect disposals and obsolete items	826	1,137
Balance at end of year:		
Gross carrying amounts	12,459	9,545
Accumulated depreciation	(5,927)	(3,643)
<b>Net carrying amount at end of year</b>	<b>6,532</b>	<b>5,902</b>

## 19. Capital Expenditure and Financing

### Accounting Policy -Government Grants and Contributions

Where capital grants are credited to the CIES, they are reversed out of the General Fund balance in the movement in reserves statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied reserve. Where it has been applied, it is posted to the capital adjustment account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

The total amount of capital expenditure incurred in the year is shown in the table below together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the PCC Group, the expenditure results in an increase in the capital financing requirement (CFR), a measure of the capital expenditure incurred historically by the PCC Group that has yet to be financed. The CFR is analysed in the second part of this note.



Included with the creditors balance is an amount of £1.4m representing cash seized by Police under the Proceeds of Crime Act 2002 (£2.1m at 31 March 2016). This cash is collected on behalf of the Home Office and does not impact on the CIES.

## 22. Cash and Cash Equivalents

### Accounting Policy

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

The balance of cash and cash equivalents is made up of the following elements:

	<b>31 March 2017 £000</b>	<b>31 March 2016 £000</b>
Cash held	218	241
Bank current accounts	24	7
Short-term deposits under three months	16,487	35,572
<b>TOTAL</b>	<b>16,729</b>	<b>35,820</b>

## 23. Cash Flow Statement -Adjustments to Net (Surplus)/Deficit on the provision of services for non-cash movement

<b>PCC</b>			<b>PCC GROUP</b>	
<b>2015/16 £000</b>	<b>2016/17 £000</b>		<b>2016/17 £000</b>	<b>2015/16 £000</b>
(15,290)	(13,753)	Depreciation, impairments and downward valuations	(13,753)	(15,290)
(2,592)	(3,110)	Amortisation	(3,110)	(2,592)
(6,398)	3,110	Net (increase)/decrease in revenue creditors	3,222	(6,019)
(516)	12,723	Net increase/(decrease) in revenue debtors	12,723	(516)
(87)	92	Increase/(decrease) in inventories	92	(87)
(62)	(68)	Pension liability	(60,389)	(64,015)
560	248	Contributions (to)/from provisions	248	560
(3,400)	(9,836)	Carrying amount of non-current assets sold (PPE, Inv Prop, Intangibles)	(9,836)	(3,400)
4	-	Movement in value of assets held for sale	-	4
19	41	Movement in value of investment property	41	19
<b>(27,762)</b>	<b>(10,553)</b>	<b>Total</b>	<b>(70,762)</b>	<b>(91,336)</b>

24. **Cash Flow Statement - Adjustments for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities**

	PCC/PCC GROUP	
	2016/17 £000	2015/16 £000
Capital grants and contributions credited to (surplus)/deficit on provisions of services	1,501	3,033
Proceeds from sale of PPE, Inv Prop, Intangibles	3,211	671
<b>Total</b>	<b>4,712</b>	<b>3,704</b>

25. **Cash Flow Statement – Investing Activities**

	PCC/PCC GROUP	
	2016/17 £000	2015/16 £000
Purchase of property, plant and equipment, investment property and intangible assets	20,839	14,301
Purchase of long-term investments	-	-
Proceeds from sale of property, plant and equipment, investments property and intangible assets	(3,211)	(671)
Proceeds from disposal of short-term investments	-	-
Other receipts from investing activities	(2,808)	(2,858)
<b>Net cash outflows/(inflows) from investing activities</b>	<b>14,820</b>	<b>10,772</b>

26. **Cash Flow Statement – Cash Flows from Financing Activities**

	PCC/PCC GROUP	
	2016/17 £000	2015/16 £000
Cash repayment of short and long term borrowing	500	500
Transferred debt repayment	237	237
<b>Total cash outflows from financing activities</b>	<b>737</b>	<b>737</b>

27. **Financial Instruments**

Accounting Policy

All financial instruments are included in the balance sheet at amortised cost. For borrowings this means that the amount presented in the balance sheet is the outstanding principal repayment and the interest charged to the CIES is the amount payable in the year. Likewise investments are included in the balance sheet as the outstanding principal receivable and the interest credited to the CIES is the amount receivable in the year.

The following categories of financial instruments are carried in the PCC/PCC Group balance sheet:

Balance Sheet Items	Long Term		Short Term	
	31 March 2017	31 March 2016	31 March 2017	31 March 2016 (Re-stated)
	£000	£000	£000	£000
<b>Investments</b>				
Loans and receivables:				
Investments	-	5,000	5,000	-
Cash and cash equivalents	-	-	16,729	35,820
<b>Total Investments</b>		<b>5,000</b>	<b>21,729</b>	<b>35,820</b>
<b>Debtors:</b>				
Financial assets carried at contract amounts*	-	-	11,359	6,036
<b>Borrowings:</b>				
Financial liabilities at amortised cost	(17,054)	(18,154)	(1,100)	(500)
<b>Creditors:</b>				
Financial liabilities carried at contract amount*	(473)	(901)	(15,977)	(17,822)

The figures included above for short term debtors and creditors are lower than the figures reported in the group balance sheet as they exclude the following amounts which do not meet the definition of financial instruments:

Short term debtors	21,056	13,819
Short term creditors	(12,904)	(12,982)

The borrowings at amortised cost are loans from the Public Works Loan Board. The terms of these loans are such that the amortised cost of the loans at 31 March 2017 is calculated as their nominal value plus interest accrued up to the balance sheet date. Because interest is paid on the balance sheet date each year the accrued interest is nil and the amortised cost of the loans is therefore the same as their nominal value.

Cash investments during 2016/17 are principally balances placed in Lancashire County Council's General County Fund. The counterparty is Lancashire County Council which pays a market rate of interest in return for borrowing the PCC's funds for capital financing and short term cash flow purposes. In addition to the cash investments held with LCC a further £5m on-call investment is held. The short term investment is a fixed deposit deal with another UK local authority which matures in October 2017.

## Income, Expense, Gains and Losses

### Gains and Losses on Financial Instruments

The gains and losses during 2016/17 on financial instruments, i.e. the borrowings and investments detailed above, which have been recognised in the CIES, are as shown in the following table.

	Financial liabilities measured at amortised cost		Financial assets measured at amortised cost	
	2016/17	2015/16	2016/17	2015/16
	£000	£000	£000	£000
Interest expense	836	865		
<b>Total Interest payable</b>	<b>836</b>	<b>865</b>		
Interest income			248	345
<b>Total interest receivable</b>			<b>248</b>	<b>345</b>

### Fair Value of Financial Liabilities and Assets

Financial liabilities and financial assets, represented by loans and receivables, are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments. The fair values are shown in the table below.

Balance Sheet Items	31 March 2017		31 March 2016	
	Amortised Cost	Fair Value	Amortised Cost	Fair value
	£000	£000	£000	£000
Loans from the Public Works Loan Board	18,154	22,573	18,654	22,006
Cash deposits invested with Lancashire County Council	11,487	11,487	30,572	30,572
Other investments	10,000	10,263	10,000	10,156

### Fair value hierarchy for financial assets and financial liabilities that are not measured at Fair Value

Recurring fair value measurement using:	Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Total £000
<b>Financial Liabilities</b>				
Financial liabilities at amortised cost:				
Loans from PWLB	-	22,573	-	22,573
<b>TOTAL</b>	-	<b>22,573</b>	-	<b>22,573</b>
<b>Financial Assets</b>				
Loans and receivables:				
Cash deposits invested with LCC	-	11,487	-	11,487
Other external investments	-	10,263	-	10,263
<b>TOTAL</b>	-	<b>21,750</b>	-	<b>21,750</b>

The fair value of the PCC's PWLB loans is based on the discounted cash flows contained within the loan agreement. All our deposits in the County Council's General County Fund are on call and so the fair value of these investments is the same as their nominal value. The long term loan has just over 6 months to maturity and because interest rates have fallen since the loan was made the fair value is higher than the nominal value.

### Exposure to Risk in Financial Instruments

There is some risk attached to our holdings of and transactions in financial instruments. The following sections show how we quantify, where possible, and control our exposure to the three main elements of financial risk. These are credit risk, liquidity risk and market risk.

## Credit Risk

Counterparty credit risk is the risk that a counterparty will be unable to meet its obligations and repay monies owed to the PCC. The risk arises from deposits with banks and financial institutions, as well as credit exposures to the organisation's customers.

With regard to financial institutions, the risk is minimised through the annual investment strategy, which requires that deposits are not made with an institution unless it meets identified minimum credit criteria, as laid down by the three main credit rating agencies. The strategy also imposes a maximum sum and duration with which the PCC can be invested in an institution depending upon the quality of credit rating. During the 2016/17 financial year the PCC's balances were invested only with UK local authorities so that the investment portfolio maintained a very high AA- credit rating.

Amount at 31 March 2017	Historical experience of default	Historical experience adjusted for market conditions at 31 March 2017	Estimated maximum exposure to default and uncollectability
£000	%	%	£000
A	B	C	A x C
1,709	33.01%	35.3%	603

For this exercise, historical experience of default relates to average debt outstanding in excess of the thirty day terms allowed for trade debtors. In reality, debt is pursued actively and actual debt ultimately written off over the four year period amounted to an average of only £19k per year so whilst the exposure noted above is high the risk of uncollectability is low.

On the basis that the PCC allows thirty days credit terms for customers, £0.7m of the £1.7m balance is past its due date for payment. The past due date amount can be analysed by age, as follows:

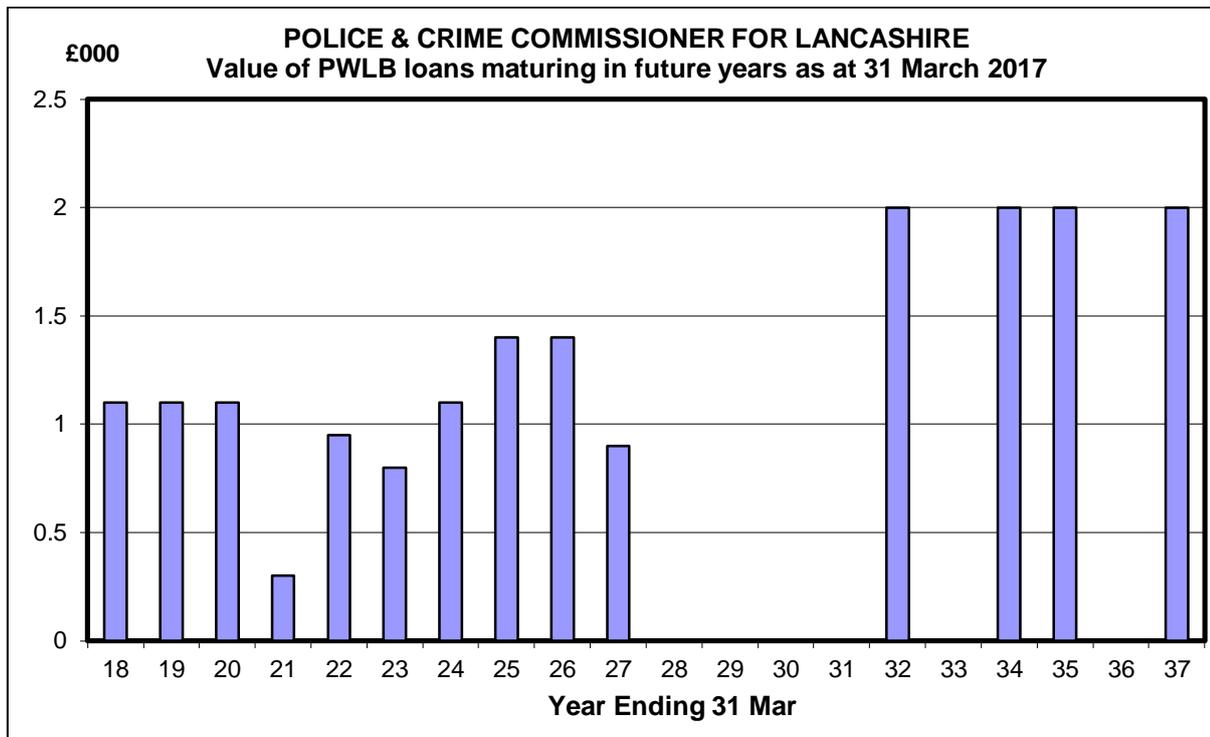
	31 Mar 17	31 Mar 16
	£000	£000
One to three months	234	284
Three to six months	96	121
Six months to one year	84	26
More than one year	291	297
	<b>705</b>	<b>728</b>

## Liquidity Risk

Liquidity risk is the danger that, at any time, we will have insufficient funds in our bank account to make the payments necessary to meet our financial obligations. We must manage our financial liabilities and assets in such a way as to mitigate this risk.

In managing our financial liabilities, we seek to achieve a maturity pattern of our borrowings which will ensure that there are no heavy concentrations of maturities in any one year. In fact, the risk is more of a price risk than a liquidity risk as we can always secure replacement loans from the PWLB or other market source, but would not want to replace too large a proportion of our loans at a time of high interest rates.

The maturity profile of our debt is shown in the table below. This illustrates the spread of maturities into the future and how we have avoided the need for too much debt to be replaced in any one year.



With our financial assets a significant proportion are callable at any time. The PCC's CFO meets on a regular basis with the County Council's treasury management team to discuss cash flow and the appropriate level of balances to keep on call.

### Market Risk

The market risk to which we are exposed in our financial instruments arises mainly from interest rate movements in financial markets. The different types of financial instruments that we hold are affected in different ways by changes in market interest rates.

We hold fixed rate financial liabilities and variable rate financial assets. The fixed rate financial liabilities are long-term loans from the PWLB and the effect of changes in market interest rates is to change the fair value of the liabilities reported in the notes to the balance sheet.

These changes have no effect on any part of the revenue account or on the actual balance sheet carrying value. Fair values represent the amount due if debt is repaid before its maturity date. When the loans finally mature, they will be repayable at their nominal, balance sheet values.

## 28. Defined Benefit Post-Employment Benefits

### Accounting Policies

Police officers and police staff currently belong to one of four separate pension schemes:

- 1987 Police Pension Scheme for Police Officers;
- 2006 Police Pension Scheme for Police Officers;
- 2015 Police Pension Scheme for Police Officers;
- Local Government Pensions Scheme for Police Staff

There are unfunded arrangements for uniformed police officers. They are defined benefit pension arrangements which are governed by statute.

The Lancashire County Pension Fund, which is part of the Local Government Pension Scheme (LGPS), applies to other employees and is administered by Lancashire County Council. The LGPS is a

contributory defined benefit pension arrangement for local authorities and related employers, and is governed by statute (principally now the Public Service Pensions Act 2013). Teachers, police officers and firefighters are not included within the scheme as they come within other national pension schemes.

The Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The Lancashire County Pension Fund is a multi-employer arrangement, under which each employer is responsible for the pension costs, liabilities and funding risks relating to its own employees and former employees. Each employer's contributions to the Fund are calculated in accordance with the LGPS Regulations, which require an actuarial valuation to be carried out every three years. The latest actuarial valuation of the Fund was carried out at 31 March 2016, and at that date showed a funding level of 90% (assets of £6.0bn against accrued liabilities of about £6.7bn). The weighted average duration of the liabilities of the Fund as a whole is 16 years, measured on the IAS19 actuarial assumptions. The duration of the liabilities for the individual employers which participate in the scheme can be significantly different from this, reflecting the profile of its employees and former employees.

All the schemes provide index linked defined benefits to members (retirement lump sums and pensions), which are earned as employees work for the PCC Group and determined by the individuals pensionable pay and pensionable service. Details of how the schemes operate can be found on the LCC's "Your Pension Service" website at the link below:

[www.yourpensionservice.org.uk](http://www.yourpensionservice.org.uk)

The Local Government Scheme and the police pension schemes are accounted for as defined benefits schemes, as follows:

Local Government Scheme:

Police staff, PCSOs and staff of the Office of the PCC are members of the Local Government Pension Scheme, a funded defined benefit scheme, which is managed by Lancashire County Council. The PCC Group paid an employer's contribution of 11.5% during 2016/17 along with a cash contribution of £2.9m towards the deficit (11.5% employer's contribution 2015/16 with a separate cash contribution of £2.9m). The deficit contribution relating to the staff directly employed by the PCC in 2016/17 was £0.04m (£0.04m in 2015/16).

The liabilities of the Local Government Pension Scheme attributable to the PCC Group are included in the balance sheet on an actuarial basis using the projected unit credit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projected earnings for current employees.

Liabilities are discounted to their value at current prices, using discount rates which now vary according to the duration of the employer's liability, with an average of 2.6% for the staff employed by the PCC and the CC (3.6% in 2015/16), based on the weighted average of "spot yields" on AA rated corporate bonds.

The assets of the Local Government Pension Fund attributable to the PCC Group are included in the balance sheet at their fair value. The valuation at fair value has been classified into three levels according to quality and reliability of information used to determine fair values and in line with the fair

value hierarchy. Further detail as to how it was determined which assets were included in each level can be found later in this note on Page 75

#### Police Officers:

From April 2015 the 2015 Police Pension Scheme replaced the 1987 and 2006 Police Pension Schemes. With the exception of some officers closest to retirement, who are covered by full or tapered transitional provisions, all police officers have moved to the new scheme. The 2015 Police Pension Scheme is a Career Average Revalued Earnings (CARE) scheme and replaces final salary schemes. It is governed by the Police Pensions Regulations 2015 and related regulations in the Public Service Pensions Act 2013.

As transitional provision is in place, some members will remain in the 1987 and 2006 Police Pension Scheme and, more significantly, the benefits members have accrued will be retained and hence the liabilities reported in the balance sheet will remain with the PCC group.

All the police officer schemes provide defined benefits to members (retirement lump sums and pensions), which are earned as employees work for the PCC Group. The employers' contribution for each serving officer is common to both schemes (21.3% of pensionable pay from 1 April 2015 and previously 24.2%) This is set nationally and is subject to review.

A police pension account was set up on 1 April 2006 which administers all of the police pension schemes.

Accrued net pension liabilities have been assessed on an actuarial basis in accordance with IAS19. The net liability and a pensions reserve incorporating both pension schemes have been recognised in the PCC and PCC Group balance sheets, as have entries in the PCC and PCC Group CIES for movements in the asset/liability relating to the defined benefit schemes. Transfers into and out of the schemes, representing joining and leaving police officers are recorded on a cash basis in the police pension account as a result of the time taken to finalise the sums involved. In accordance with the Police Reform and Social Responsibility Act 2011, the police pension account is administered by the CC for Lancashire Constabulary and is included in both the CC and PCC Group statements of accounts

The liabilities of all of the schemes attributable to the PCC Group are included in the balance sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 2.5% (3.5% in 2015/16), based on the weighted average of "spot yields" on AA rated corporate bonds.

#### Injury Awards:

Injury awards are paid to police officers under the Police (Injury Benefits) Regulations 2006 and entitlement is dependent on the salary, service and also degree of disablement of the member at the time the injury is incurred. Accordingly the actuaries have calculated the defined benefit obligation as at 31 March 2017 including allowances for the following:

- the actuarial value of the injury pensions that are currently in payment;
- advance provision for the part of the injury pensions that are accrued up to 31 March 2017 and are not yet in payment, for members still in service, in the same way that provision is made for accrued pensions for members still in service for the 1987, 2006 and 2015 schemes.

In addition, an ongoing "service cost" is also calculated which represents the cost of one year's accrual of injury benefits in relation to members in service. Therefore, in line with the 2016/17' CIPFA Code of Practice Guidance Notes (Module 6, Para. B72) the assumption that such awards are "not usually subject to the same degree of uncertainty as the measurement of post-employment benefits" has been

rebutted and injury awards are therefore accounted for, under IAS 19, in the same manner as the main police pension schemes. Liabilities are included on the PCC Group balance sheet within the pensions' liabilities and shown separately in the notes to the accounts.

The change in the net pension liability has to be analysed into the following components:

Service cost, comprising:

- **current service cost:** represents the future service cost to the employer of one year's accrual of pension benefits for active members, calculated on the actuarial assumptions used at the start of the year for IAS19 purposes. The interest on the service cost is included within the service cost - allocated in the CIES across activity areas;
- **past service and curtailments costs:** these are normally the result of increased benefits being awarded in the event of members retiring early during the year. Changes in scheme benefits and any augmentation of benefits for active members would also give rise to past service costs – debited to the surplus or deficit on the provision of services in the CIES as part of non-distributed costs
- **administrative expenses:** these are the costs of running the fund, attributable to the employer, and does not include any investment management expenses which are allowed for under "Re-measurements". These costs are debited to the surplus or deficit on the provision of services in the CIES as part of non-distributed costs
- **net interest on the net defined benefit liability (asset):** net interest expense for the PCC Group – the change during the period in the net defined benefit liability (asset) that arises from the passage of time, charged to the financing and investment income and expenditure line of the CIES, This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Re-measurements, the components of which pass through the Other Comprehensive income and expenditure section of the CIES and are made up as follows:

- **Re-measurements (assets)** – these are set out in IAS19 as being the return on assets net of interest on assets, so this is a reflection of the extent to which the investment returns achieved are different from the interest rate used at the start of the year. However, for multi-employer schemes such as LGPS, which do not have asset values which are formally segregated between employers, additional adjustments can arise in the year in which a new set of actuarial valuation results is brought into account for IAS19 purposes. In particular, the approach to calculating the IAS19 assets and liabilities in between full actuarial valuations is approximate in nature. At each valuation, the position is reassessed, with the assets (and liabilities) attributable to each employer being fully recalculated. Following each full actuarial valuation it can therefore be necessary to put through some adjustments to reflect this recalculation. The adjustment is not explicitly catered for under IAS19 and it has been presented as part of the re-measurement on assets and referred to as "experience gain/loss on assets";

**Re-measurements (liabilities)** –these are subdivided into:

Gain/loss on financial assumptions and gain/loss on demographic assumptions –under the accounting standards the assumptions will normally differ between the start and end of the employer's financial year. Changes in actuarial assumptions show the effect of this difference, calculated at the end of the financial year;

Experience gains/losses on liabilities –as mentioned earlier, the approach to calculating the IAS19 figures in between actuarial valuations is approximate in nature. At each triennial valuation, the position is reassessed, with the assets and liabilities attributable to each employer fully recalculated. The adjustment to the liabilities which arises from this recalculation is known as an

"experience gain/loss on liabilities". Experience gain/loss on liabilities is normally zero in between full actuarial valuations.

Contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense. In the case of the police pension scheme, this includes any contribution made by the PCC to meet the deficit on the pension fund.

In relation to retirement benefits, statutory provisions require the Police General Fund balance to be charged with the amount payable by the PCC/PCC Group to the pension funds or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the movement in reserves statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the PCC/PCC Group Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### **Governance and Risk Management:**

The liability associated with the employer's pension arrangements is material to the employer, as is the cash funding required. The details in relation to each arrangement, including the relevant provisions for governance and risk management, are set out below.

### **Lancashire County Pension Fund**

#### **Governance:**

Management of the Fund is vested in Lancashire County Council as administering authority of the Fund. Lancashire County Council has appointed a Pension Fund Committee (comprised of a mixture of County Councillors and representatives from other employers) to manage the Fund. The Committee is assisted by an investment panel which advises the Committee on its investment strategy and risk management provisions.

#### **Funding the liabilities:**

Regulations governing the Fund require actuarial valuations to be carried out every three years. Contributions for each employer are set having regard to their individual circumstances. The Regulations require the contributions to be set with a view to targeting the Fund's solvency, and the detailed provisions are set out in the Fund's investment strategy statement. The most recent valuation was carried out as at 31 March 2016, which showed a shortfall of assets against liabilities of £0.69 billion as at that date, equivalent to a funding level of 90%. The fund's employers are paying additional contributions over a period of 16 years in order to meet the shortfall.

The weighted average duration of the PCC Group's defined benefit obligation is 21 years for staff employed by the CC and 20 years for staff employed by the PCC, measured on the actuarial assumptions used for IAS19 purposes. The PCC Group anticipates to pay £8.6m contributions to the LGPS in 2017/18. Of this, £0.1m is expected to be paid in respect of the PCCs own staff.

#### **Risks and Investment strategy:**

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim of investment risk management is to balance the minimisation of the risk of an overall reduction in the value of the Fund with maximising the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and keep credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flow.

**Market Risk:**

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmarking analysis.

**Other Price Risk:**

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk). The Fund's investment managers mitigate this price risk through diversification. The selection of securities and other financial instruments is monitored by the Fund to ensure it is within limits specified in the fund investment strategy.

**Interest Rate Risk:**

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risks that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk is routinely monitored by the Investment Panel and its investment advisors.

**Currency risk:**

Currency risk represents the risk that the fair value cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund's currency rate risk is routinely monitored by the Fund and its investment advisors in accordance with the Fund's risk management strategy.

**Credit risk:**

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur financial loss. Credit risk is minimised by ensuring that counterparties meet the Fund's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any class of financial institution.

**Liquidity risks:**

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that there are adequate cash resources to meet its commitments, and the Fund has immediate access to its cash holdings.

**Other risks:**

Actions taken by the government, or changes to European legislation, could result in stronger local funding standards, which could materially affect the employer's cash flow.

There is a risk that changes in the assumptions (e.g. life expectancy, price inflation, discount rate) could increase the defined benefit obligation and/or the liabilities for actuarial valuation purposes. Other assumptions used to value the defined benefit obligation are also uncertain, although their effect is less material. The sensitivity analysis included in the notes below indicates the change in the defined benefit obligation for changes in the key assumptions.

**Amendments, curtailments and settlements:**

The provisions of the Fund were amended with effect from 1 April 2014. For service up to 31 March 2014 benefits were based on salaries when members leave the scheme, whereas for service after that date benefits are based on career average salary. Further details of the changes are available from the Fund's administering authority.

Curtailments shown in the accounting figures relate to the cost of providing retirement benefits for members who retire early, to the extent that provision has not already been made for the relevant defined benefit obligations.

Settlements shown in the accounting figures relate to the admission of new employers into the Fund, and who take on part of the employer's assets and liabilities as a result of employing members who have accrued benefits with the employer.

### **Police Pensions Schemes**

#### **Governance:**

These arrangements are managed by the employer, although this essentially involves administering the plan, including managing its cash flows. The requirement to set up Police Pension boards has resulted in the setting up of a North West region Police Pension board which is administered by the Constabulary. The Board comprises employer representatives as well as representatives of the individual scheme managers and carries out a variety of activities to assess governance arrangements.

#### **Funding the liabilities:**

Given that the arrangements are unfunded, the contributions payable are simply those which are sufficient to meet the benefit outgo as and when it arises. As mentioned above, this benefit outgo is largely underwritten by central government. The weighted average duration of the liabilities is 17 years in respect of the 1987 scheme, 31 years in respect of the 2006 scheme and 41 years in respect of the 2015 scheme (injury awards have a duration of 18 years), measured on the actuarial assumptions used for IAS19 purposes. The PCC Group anticipates to pay £83.4m contributions to the Police Schemes in 2016/17.

#### **Investment Risks:**

There are no investment risks in relation to these arrangements, given their unfunded nature. The greatest single risk is that the government could change the arrangements for meeting part of the benefit outgo, which could increase the employer's contributions to them.

#### **Other risks:**

There is a risk that changes in the assumptions (e.g. life expectancy, price inflation, discount rate) could increase the defined benefit obligation. Other assumptions used to value the defined benefit obligation are also uncertain, although their effect is less material. The sensitivity analysis above indicates the change in the defined benefit obligation for changes in the key assumptions.

### **Transactions Relating to Post-Employment Benefits**

We recognise the cost of post-employment/retirement benefits in the reported cost of services when they are earned by the employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the employers' contributions payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the PCC Group General Fund via the movement in reserves statement. The following transactions have been made during the year:

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PCC GROUP	Local Government Pension Scheme		Police Officer Pension Schemes		Injury Awards		Total	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Comprehensive Income and Expenditure Statement (CIES)</b>								
<b>Cost of Services:</b>								
<b>Service Cost comprising:</b>								
• Current service cost	9,949	11,336	37,279	45,696	2,974	3,429	50,202	60,461
• Past service costs	-	35	-	-	-	-	-	35
• Curtailment costs	255	1,542	-	-	-	-	255	1,542
• Admin. Expenses	236	184	-	-	-	-	236	184
<b>Financing and Investment Income and Expenditure:</b>								
• Net Interest expense	3,549	4,046	94,690	89,486	3,381	3,145	101,620	96,677
<b>Total Post-Employment Benefits Charged to the surplus/deficit on Provision of Services in the CIES</b>	<b>13,989</b>	<b>17,143</b>	<b>131,969</b>	<b>135,182</b>	<b>6,355</b>	<b>6,574</b>	<b>152,313</b>	<b>158,899</b>
<b>Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement:</b>								
<b>Re-measurement of the net defined benefit liability, comprising:</b>								
• Re-measurements (assets)	(44,559)	(3,576)	-	-	-	-	(44,559)	(3,576)
• Experience (gains)/losses on Liabilities	(31,673)	-	-	9,606	-	-	(31,673)	9,606
• (Gains)/losses on demographic assumptions	(2,582)	-	-	-	-	-	(2,582)	-
• Actuarial (gains)/losses arising on changes in financial assumptions	102,025	(24,979)	640,700	(153,440)	27,268	(5,526)	769,993	(183,945)
<b>Total Post-Employment Benefits Charged to the Comprehensive Income and Expenditure Statement</b>	<b>37,200</b>	<b>(11,412)</b>	<b>772,669</b>	<b>(8,652)</b>	<b>33,623</b>	<b>1,048</b>	<b>843,492</b>	<b>(19,016)</b>
<b>Movement in Reserves Statement</b>								
Reversal of net charges made to the (Surplus)/Deficit on the Provision of Services for post-employment benefits in accordance with the Code	(13,989)	(17,143)	(131,969)	(135,182)	(6,355)	(6,574)	(152,313)	(158,899)
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>								
• Employers' contributions payable to scheme	8,767	9,218	80,399	83,013	-	-	89,166	92,231
• Retirement benefits paid to pensioners	-	-	-	-	2,758	2,653	2,758	2,653

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A further breakdown of the LGPS scheme is shown below, which identifies those costs reflected individually in the PCC and CC financial statements.

	PCC		CC		Total	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
	£000	£000	£000	£000	£000	£000
<b>Comprehensive Income and Expenditure Statement</b>						
<b>Cost of Services:</b>						
• Current Service Cost	109	133	9,840	11,203	9,949	11,336
• Past service costs	-	-	-	35	-	35
• Curtailment costs	116	-	139	1,542	255	1,542
• Admin expenses	3	2	233	182	236	184
<b>Financing and Investment Income and Expenditure:</b>						
• Net interest expense	23	31	3,526	4,015	3,549	4,046
<b>Net Charge to the Income and Expenditure Account Total Post-Employment Benefits Charged to the Comprehensive Income and Expenditure Statement</b>	<b>251</b>	<b>166</b>	<b>13,738</b>	<b>16,977</b>	<b>13,989</b>	<b>17,143</b>
<b>Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement</b>						
• Re-measurements (assets)	(1,978)	(37)	(42,581)	(3,539)	(44,559)	(3,576)
• Experience (gains)/losses on Liabilities	1,793		(33,466)		(31,673)	
• (Gains)/losses on demographic assumptions	(23)		(2,559)		(2,582)	
• Actuarial (gains)/losses arising on changes in financial assumptions	846	(212)	101,179	(24,767)	102,025	(24,979)
<b>Total Post-Employment Benefits Charged to the Comprehensive Income and Expenditure Statement</b>	<b>889</b>	<b>(83)</b>	<b>36,311</b>	<b>(11,329)</b>	<b>37,200</b>	<b>(11,412)</b>
<b>Statement of Movement in the General Fund Balance:</b>						
Reversal of net charges made for retirement benefits in accordance with IAS 19	(251)	(166)	(13,738)	(16,977)	(13,989)	(17,143)
<b>Actual amount charged against Council tax for pensions in the year:</b>						
Employers' contributions payable to scheme	183	104	8,584	9,114	8,767	9,218

**Pensions Assets and Liabilities Recognised in the Balance Sheet**

	Local Govt Pension Scheme		Police Pension Schemes		Injury Awards		Total	
	31 Mar 2017	31 Mar 2016	31 Mar 2017	31 Mar 2016	31 Mar 2017	31 Mar 2016	31 Mar 2017	31 Mar 2016
<b>PCC GROUP</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Present value of the defined benefit obligation	454,599	367,789	3,437,900	2,745,630	128,827	97,962	4,021,326	3,211,381
Fair value of plan assets	(323,229)	(264,852)	-	-	-	-	(323,229)	(264,852)
<b>Net liability arising from defined benefit obligation</b>	<b>131,370</b>	<b>102,937</b>	<b>3,437,900</b>	<b>2,745,630</b>	<b>128,827</b>	<b>97,962</b>	<b>3,698,097</b>	<b>2,946,529</b>

	Local Govt Pension Scheme	
	31 Mar 2017	31 Mar 2016
	<b>£000</b>	<b>£000</b>
<b>SINGLE ENTITY PCC</b>		
Present value of the defined benefit obligation	6,207	3,280
Fair value of plan assets	(4,751)	(2,530)
<b>Net liability arising from defined benefit obligation</b>	<b>1,456</b>	<b>750</b>

The liabilities show the underlying commitments that the PCC Group has in the long run to fund retirement benefits, both in respect of the staff of the Office of the PCC (£1.5m) and the police officers and staff under the direction of the CC (£3,696.6m)

The total liability of £3,698m has a considerable impact on the net worth of the PCC Group as recorded in the balance sheets, resulting in a net liability of £3,525m.

However, statutory arrangements for funding the liability mean that the financial position remains healthy:

- The deficit on the Local Government Pensions scheme will be made good by increased contributions over the remaining working life of the employees, as assessed by the scheme actuary.
- Finance is only required to be raised to cover police pensions and injury awards when the pensions are actually paid.

## Assets and Liabilities in Relation to Post-employment Benefits

### Reconciliation of the present value of the scheme liabilities:

	Funded Liabilities: Local Govt Pension Scheme					
	PCC GROUP		PCC		CC	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
	£000	£000	£000	£000	£000	£000
<b>1 April</b>	<b>367,789</b>	<b>371,670</b>	<b>3,280</b>	<b>3,215</b>	<b>364,509</b>	<b>368,455</b>
Current Service Costs	9,949	11,336	109	133	9,840	11,203
Interest on pensions liabilities	13,163	12,561	117	108	13,046	12,453
Contributions by scheme participants	2,990	2,928	41	39	2,949	2,889
Actuarial losses –changes in demographic assumptions	(2,582)	-	(23)	-	(2,559)	-
Actuarial (gains)/losses –changes in financial assumptions	102,025	(24,979)	846	(212)	101,179	(24,767)
Experience (gains)/losses on liabilities	(31,673)	-	1,793	-	(33,466)	-
Benefits paid	(7,317)	(7,304)	(72)	(3)	(7,245)	(7,301)
Past Service/Curtailment Costs	255	1,577	116	-	139	1,577
<b>31 March</b>	<b>454,599</b>	<b>367,789</b>	<b>6,207</b>	<b>3,280</b>	<b>448,392</b>	<b>364,509</b>

	Unfunded Liabilities - PCC GROUP			
	Police Pension Schemes		Injury Benefits	
	2016/17	2015/16	2016/17	2015/16
	£000	£000	£000	£000
<b>1 April</b>	<b>2,745,630</b>	<b>2,837,295</b>	<b>97,962</b>	<b>99,567</b>
Current Service Costs	37,279	45,696	2,974	3,429
Interest on pensions liabilities	94,690	89,486	3,381	3,145
Contributions by scheme participants	14,087	14,703	-	-
Experience gains/(losses) on liabilities	-	9,606	-	-
Actuarial losses –changes in demographic assumptions	-	-	-	-
Actuarial (gains)/losses –changes in financial assumptions	640,700	(153,440)	27,268	(5,526)
Benefits paid	(94,486)	(97,716)	(2,758)	(2,653)
<b>31 March</b>	<b>3,437,900</b>	<b>2,745,630</b>	<b>128,827</b>	<b>97,962</b>

NB: All the unfunded liabilities relate to police officers who are/were under the direction and control of the CC.

**Reconciliation of the fair value of the scheme assets:**

<b>Funded Scheme –Local Government Pension Scheme</b>						
	<b>PCC GROUP</b>		<b>PCC</b>		<b>CC</b>	
	<b>2016/17</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>1 April</b>	<b>264,852</b>	<b>248,103</b>	<b>2,530</b>	<b>2,278</b>	<b>262,322</b>	<b>245,825</b>
Interest on plan assets	9,614	8,515	94	77	9,520	8,438
Admin expenses	(236)	(184)	(3)	(2)	(233)	(182)
Employer contributions	8,767	9,218	183	104	8,584	9,114
Contributions by scheme participants	2,990	2,928	41	39	2,949	2,889
Re-measurements (assets)	44,559	3,576	1,978	37	42,581	3,539
Benefits paid	(7,317)	(7,304)	(72)	(3)	(7,245)	(7,301)
<b>31 March</b>	<b>323,229</b>	<b>264,852</b>	<b>4,751</b>	<b>2,530</b>	<b>318,478</b>	<b>262,322</b>

<b>Unfunded Schemes –PCC Group</b>				
	<b>Police Pension Schemes</b>		<b>Injury Benefits</b>	
	<b>2016/17</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>1 April</b>	-	-	-	-
Employer contributions	80,399	83,013	2,758	2,653
Contributions by scheme participants	14,087	14,703	-	-
Benefits paid	(94,486)	(97,716)	(2,758)	(2,653)
<b>31 March</b>	-	-	-	-

**Local Government Pension Scheme assets for the PCC Group comprised:**

	<b>Fair Value Input Level</b> (if relevant)	<b>31 March 2017</b> <b>£000</b>	<b>31 March 2016</b> <b>£000</b>
<b>Cash and Cash Equivalents</b>		<b>3,380</b>	<b>9,112</b>
<b>Bonds</b>			
<u>By Sector</u>			
Corporate	1/2	5,308	5,394
Government	3	6,397	5,322
<b>Sub-Total Bonds</b>		<b>11,705</b>	<b>10,716</b>
<b>Property</b>			
<u>By Type</u>			
Retail	2	8,797	9,074
Commercial	2	19,676	16,385
<b>Sub-Total Property</b>		<b>28,473</b>	<b>25,459</b>
<b>Private Equity</b>			
UK	3	3,664	4,319
Overseas	3	17,137	11,630
<b>Sub-Total Private Equity</b>		<b>20,801</b>	<b>15,949</b>
<b>Other Investment Funds</b>			
Overseas Pooled Equity	1	142,889	21,123
Credit Funds	2/3	72,425	66,646
Infrastructure	3	38,999	21,163
Property	3	4,557	3,657
<b>Sub-Total Other Investment Funds</b>		<b>258,870</b>	<b>112,589</b>
<b>Equity Instruments</b>			
<u>By Industry</u>			
Consumer	1	-	28,770
Manufacturing	1	-	14,754
Energy and Utilities	1	-	5,529
Financial Institutions	1	-	16,064
Health and Care	1	-	9,611
Information Technology	1	-	16,299
<b>Sub-Total Equity</b>		<b>-</b>	<b>91,027</b>
<b>TOTAL ASSETS*</b>		<b>323,229</b>	<b>264,852</b>

\*At 31 March 2017 the share of these assets that relate to staff of the Office of the PCC are £4.751m (£2.530m at 31 March 2016)

**Allocation into Fair Value Hierarchy**

**Level 1**

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Examples include quoted equity investments, unit trusts, UK pooled fixed income funds, overseas pooled fixed income funds, UK and overseas quoted fixed interest securities. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

## **Level 2**

Level 2 investments are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. Such instruments include bonds secured on affordable housing assets. The technique for valuing these assets is independently verified.

The bonds secured on affordable housing assets are based on long term expectations of interest rates, inflation and credit spreads in the housing association sector.

## **Level 3**

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments include internally managed overseas equity funds, overseas quoted fixed income investments, pooled UK fixed income investments, private equity, infrastructure and indirect overseas property investments, which are valued using various valuation techniques that require significant management judgement in determining appropriate assumptions, including earnings, public market comparatives and estimated future cash flows.

The values of the investment in private equity and infrastructure are based on valuations provided to the private equity and infrastructure funds in which Lancashire County Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or equivalent, which follow the valuation principles of IFRS and US GAAP. Valuations are performed annually mainly, and at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The value of the overseas indirect property fund investment is based on valuations provided to the overseas indirect property fund in which Lancashire County Pension Fund has invested. These valuations are at the current open market value, as defined by the RICS Appraisal and Valuation Standards. These valuations are performed monthly.

## **Property Funds**

The properties were valued at open market value at 31 March 2017 by independent property valuers GVA Grimley Limited in accordance with the Royal Institution Chartered Surveyors' Valuation Standards (9th Edition). The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arms-length terms.

## **Cash and cash equivalents**

Cash comprises of cash in hand and on demand deposits and includes amounts held by the Fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

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Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on the assumptions about mortality rates, salary levels etc. The police schemes, injury benefits and the Local Government Pension Fund liabilities have been assessed by Mercer Human Resource Consulting Ltd, an independent firm of actuaries, estimates being based on the last full valuations of the schemes. The principal assumptions used by the actuary have been:

	Local Govt. Pension Scheme			
	PCC staff		CC Staff	
	2016/17	2015/16	2016/17	2015/16
Mortality assumptions:				
Longevity at 65 for current pensioners (LGPS):				
Men	22.6	23.0	22.6	23.0
Women	25.2	25.6	25.2	25.6
Longevity at 65 for future pensioners (LGPS):				
Men	24.9	25.2	24.9	25.2
Women	27.9	27.9	27.9	27.9
Rate of inflation: CPI	2.3%	2.0%	2.3%	2.0%
Rate of increase in salaries	3.8%	3.5%	3.8%	3.5%
Rate of increase in pensions	2.3%	2.0%	2.3%	2.0%
Rate for discounting scheme liabilities	2.6%	3.6%	2.6%	3.6%

	Police Officers 1987 Scheme		Police Officers 2006 Scheme		Police Officers 2105 Scheme		Injury Awards	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
Longevity at 60 for current								
Men	28.4	28.2	28.4	28.2	28.4	28.2	25.8	25.6
Women	30.9	30.8	30.9	30.8	30.9	30.8	28.3	28.2
Longevity at 60 for future								
Men	30.8	30.7	30.8	30.7	30.8	30.7	28.1	28.0
Women	33.3	33.2	33.3	33.2	33.3	33.2	30.6	30.5
Rate of inflation: CPI	2.3%	2.0%	2.3%	2.0%	2.3%	2.0%	2.3%	2.0%
Rate of increase in salaries	3.8%	3.5%	3.8%	3.5%	n/a	n/a	3.8%	3.5%
Rate of increase in pensions	2.3%	2.0%	2.3%	2.0%	2.3%	2.0%	2.3%	2.0%
Rate for discounting scheme liabilities	2.5%	3.5%	2.5%	3.5%	2.5%	3.5%	2.5%	3.5%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The methods used to carry out the sensitivity analyses presented in the notes below for the material assumptions are the same as those the employer has used previously. The calculations alter the relevant assumption by the amount specified, whilst assuming that all other variables remain the same. This approach is not necessarily realistic, since some assumptions are related for example, if the scenario is to show the effect if inflation is higher than expected, it might be reasonable to expect that nominal yields on corporate bonds will increase also. However, it enables the reader to isolate one effect from another.

Local Government Pension Scheme (PCC & PCC Group):

	Impact on the Defined Benefit Obligation in the Scheme			
	PCC Group		Single Entity PCC	
	Increase in Assumption £000	Decrease in Assumption £000	Increase in Assumption £000	Decrease in Assumption £000
Longevity (increase or decrease in 1 year)	+8,698	-8,698	+119	-119
Rate of inflation (increase or decrease by 1%)	+96,280	-96,280	+1,230	-1,230
Rate for discounting scheme liabilities (increase or decrease by 1%)	-94,280	+94,280	-1,200	+1,200
Rate of increase in salaries (increase or decrease by 1%)	+26,680	-26,680	+260	-260

Police officer pension schemes and injury benefits (PCC Group only – all pension obligations relate to officers employed by the CC):

	Impact on the Defined Benefit Obligation in the Scheme			
	Police Pension Schemes		Injury Benefits	
	Increase in Assumption £000	Decrease in Assumption £000	Increase in Assumption £000	Decrease in Assumption £000
Longevity (increase or decrease in 1 year)	+85,928	-85,928	+3,249	-3,249
Rate of inflation (increase or decrease by 1%)	+644,390	-644,390	+23,800	-23,800
Rate for discounting scheme liabilities (increase or decrease by 1%)	-631,070	+631,070	-23,360	+23,360
Rate of increase in salaries (increase or decrease by 1%)	+173,590	-173,590	+9,200	-9,200

*Other Notes*

**29. Related Parties**

The PCC Group is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Group or to be controlled or influenced by the Group. Disclosure of these transactions allows readers to assess the extent to which the Group might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Group.

Central government has effective control over the general operations of the Group: it is responsible for providing the statutory framework within which the Group operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Group has with other parties. Details of transactions with government departments are set out in the subjective analysis in Note 2 (Expenditure and income analysed by nature) and further analysis in Note 13 (Grant Income).

The PCC has direct control over the Group's finances and is responsible for setting the Police and Crime Plan. The CC retains operational independence and operates within the budget set by the PCC, to deliver the aims and objectives set out in the Police and Crime Plan. Section 28 of the Police Reform and Social Responsibility Act 2011 requires that the local authorities covered by the police area must establish a Police and Crime Panel (PCP) for that area. The PCP scrutinises the decisions of the PCC, reviews the Police and Crime Plan and has a right of veto over the precept.

A survey of the related party interests of the PCC, CC and members of both senior management teams and their immediate family members was carried out in preparing the Statement of Accounts. The Director of Resources, who is a member of the CCs senior management team, is also the constabulary member director of Jobs, Friends and Houses Community Interest Company. Payments totalling £0.3m were made to the company during 2016/17 to support the activities of the company. No further material related party interests were disclosed.

**Jointly Controlled Operations/Collaboration**

Accounting Policy

The PCC Group is party to a number of collaborations (both regional and national). In all instances the Group's accounts reflect their share of income, expenditure and cash flows arising from the structure of the arrangement. As the PCC receives all income and funding, any income receivable from the structure of the arrangement will be credited to the CIES of the PCC. As the CIES of the CC contains the expenditure arising from these collaborations the PCC credits the CC with an equivalent amount through the intra-group funding.

CIPFA Guidance on Accounting for Collaboration has been considered. In determining the nature of the relationships and, as most of the north west regional arrangements have joint control through a strategic management board and a general arrangement document has been agreed and signed by all PCC's and CCs in the region, it is considered that most are correctly classified as joint operations.

Some arrangements are of a collaborative nature but are classified as third party payments. Others involve officers from individual forces undertaking tasks and roles on

a regional basis but funded by a lead force from grants made by the Home Office or are self-funded from fees and charges.

The following groups the arrangements into:

Collaboration – Joint Operations

Collaboration – Third party payments

Collaboration – Grant/Self-funded.

### Collaboration -Joint Operations

Titan was established in April 2009 bringing together the six regional police forces in collaboration to tackle serious and organised crime across the north-west. It encompasses the work of a number of teams with Merseyside as the lead force. The accounts reflect Lancashire's share of the income and expenditure of the various arrangements as follows:

2015/16 PCC Group Net Exp £000		2016/17		PCC Group Net Exp £000
		Grant Income (PCC CIES) £000	Expenditure (CC CIES) £000	
659	Regional Crime Unit	(159)	804	645
0	Regional Asset Recovery	(158)	158	0
50	Regional Intelligence Unit	(80)	109	29
358	Confidential Unit	(19)	488	469
550	Technical Surveillance unit	(24)	504	480
425	Protected Persons Service	0	302	302
167	Prisoner Intelligence	(69)	200	131
12	Operational Security Officer	(18)	31	13
1	Business Support	0	147	147
<b>2,222</b>		<b>(527)</b>	<b>2,743</b>	<b>2,216</b>

The following joint operations have Cheshire as lead force:

2015/16 PCC Group Net Exp £000		2016/17		PCC Group Net Exp £000
		Income (PCC CIES) £000	Expenditure (CC CIES) £000	
153	Joint Underwater Search Unit	(68)	221	153
248	Motorways and ANPR	0	250	250
48	Firearms Collaboration	0	62	62
16	Specialist Capability	0	0	0
3	Emergency Services Network	0	37	37
<b>468</b>		<b>(68)</b>	<b>570</b>	<b>502</b>

The Learning and Development collaboration is a joint operation between Lancashire and Cumbria. Lancashire's share of the costs is £3.1m (£2.638m in 2015/16).

**Assets and Liabilities:**

Debtors and creditors in respect of the above arrangements have remained in the balance sheets of the lead forces by mutual agreement of all forces involved, on the basis of materiality.

In 2013/14 the PCC for Merseyside purchased and refurbished a building to accommodate the Regional Crime Unit, the Regional Intelligence Unit and the Regional Asset Recovery Team. The cost of this asset was fully funded by a capital grant received from the Home Office. The premises were purchased in the name of and are owned by the PCC for Merseyside and the current value of this asset is included within the balance sheet of the PCC for Merseyside. If the regional arrangements are ever terminated the Home Office has the option of recovering the grant received to fund the building. If this option was not exercised, the sale proceeds would be divided between the participating forces (Cheshire, Greater Manchester, Merseyside, Lancashire, Cumbria and North Wales).

**Collaboration – Third Party Payments**

The only significant one of these arrangements is the payment made towards the National Police Air Service (NPAS) which was £1.211m in 2016/17 (£1.256m in 2015/16).

**Collaboration – Grant/Self-funding**

In a small number of collaboration arrangements Lancashire provided seconded officers to support the arrangements and was fully reimbursed by Greater Manchester Police (GMP). GMP were lead force and received grant funding from the Home Office to cover all expenditure. All expenditure and income has been reflected in the Greater Manchester Police CIES with Lancashire's CIES adjusted to show no transactions.

**30. Publicity**

The PCC Group has spent £0.944m (£0.701m in 2015/16) on certain categories of publicity including communication and consulting with Lancashire residents; this information is published in accordance with section 5(1) of the Local Government Act 1986. The categories and the split between PCC and CC are:

	PCC		CC		Group	
	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000
Publicity	288	131	640	561	928	692
Advertising -Recruitment	4	-	3	-	7	-
Advertising - Other	9	6	-	3	9	9
	<b>301</b>	<b>137</b>	<b>643</b>	<b>564</b>	<b>944</b>	<b>701</b>

### 31. External Audit Costs

In 2016/17 the PCC Group incurred the following fees relating to external audit.

	2016/17 £000	2015/16 £000
Fees payable to Grant Thornton UK LLP, auditors appointed under the Local Audit and Accountability Act 2014, with regard to external audit services carried out under the <i>Code of Audit Practice</i> prepared by the Comptroller and Auditor General in accordance with s19 of the Local Audit and Accountability Act 2014	51	51
<b>Total Costs</b>	<b>51</b>	<b>51</b>

Separate charges were made to the PCC and CC; the CC share was £18,750 with the balance falling on the PCC.

### 32. Sponsorship

The PCC has powers to receive gifts, loans of property and sponsorship up to a limit of 1% of its budget (2016/17 limit £2.6m). During the year monies and gifts amounting to a value of £0.035m (£0.059m in 2015/16) were received. This was principally gifts, or loans, of equipment and vehicles.

### 33. Contingent Liabilities

A contingent liability arises where an event has taken place that gives the PCC/PCC Group a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the PCC/PCC Group. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that the outflow of resources will be required or the amount of the obligation cannot be measured reliably.

As the PCC holds all usable reserves and is the responsible body for assets and liabilities, any contingent assets or liabilities will be recorded within his accounts. Contingent assets and liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

The CC, along with other Chief Constables and the Home Office, currently has 205 claims lodged against them with the Central London Employment Tribunal. The claims are in respect of alleged unlawful discrimination arising from the Transitional Provisions in the Police Pension Regulations 2015. Claims of unlawful discrimination have also been made in relation to the changes to the Judiciary and Firefighters Pension regulations. In the case of the Judiciary claims the claimants were successful and in the Firefighters case the respondents were successful. Both of these judgements are subject to appeal, the outcome of which may determine the outcome of the Police claims. The Tribunal has yet to set a date for a preliminary or substantive Police hearing. Legal advice suggests that there is a strong defence against the Police claims. The quantum and who will bear the cost is also uncertain, if the claims are partially or fully successful. For these reasons, no provision has been made in the 2016/17 Accounting Statements.”

As at the authorised for issue date, there is one potential contingent liability relating to police officers who are claiming unpaid overtime arising from activity carried out whilst in undercover policing roles. Work is currently being carried out to assess the extent to which the PCC Group may be liable.

## STATEMENT OF GENERAL ACCOUNTING POLICIES

### **i. General**

These financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Accounts and Audit Regulations 2015. The accounting policies contained in the Code apply International Financial Reporting Standards (IFRS) as adapted for the public sector by the International Public Sector Accounting Standards (IPSAS).

Following the passing of the Police Reform and Social Responsibility Act 2011, Lancashire Police Authority was replaced with two 'corporations sole', the PCC and the CC. Both bodies are required to prepare separate Statements of Accounts. The Financial Statements included here represent the accounts for the PCC as a single entity and also the PCC Group. The financial statements cover the 12 months to 31st March 2017.

The term 'Group' is used to indicate consolidated transactions and policies of the PCC and the CC for the year ended 31st March 2017. The identification of the PCC as the holding organisation and the requirements to produce Group accounts stems from the powers and responsibilities of the PCC under the Police Reform and Social Responsibility Act 2011.

The PCC Group and the PCC have adopted consistent accounting policies, which are detailed below.

The accounts have been prepared on a going concern basis using an historic cost accounting convention modified to account for the revaluation of certain categories of non-current assets.

Notes relating to specific items in the financial statements include corresponding accounting policies. The accounting policies below relate to policies with no accompanying note.

### **ii. Revenue and expenditure recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods or services provided in the normal course of business, net of discounts and VAT. Revenue is recognised when goods are delivered and title has passed. The provision of services contains many accounting aspects and revenue is only recognised when all related work has been completed.

Whilst all expenditure is paid for by the PCC, including the salaries of police officers and police staff, the actual recognition in the respective accounts of the PCC and CC is based on economic benefit and service delivery.

### **iii. Accruals of Income and Expenditure**

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership are transferred to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Group.

Revenue from the provision of services is recognised when it is probable that economic benefits or service potential associated with the transaction will flow to the Group.

Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.

Expenses in respect of services received (including services supplied by employees) are recorded as expenditure when the services are received rather than when payments are made.

Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Debtors and creditors have been included in the accounts at year end on an actual or estimated basis in line with the accruals concept.

Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iv. **Fair Value Measurement**

The PCC measures some of his non-financial assets such as surplus assets and investment assets at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The PCC measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participants ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The PCC uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the PCC group financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the PCC can assess at the measurement date;
- Level 2 – inputs other than quoted price included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 – unobservable inputs for the asset or liability.

**v. Working Capital**

The PCC has the responsibility for managing financial relationships with third parties and has legal responsibility for discharging the contractual terms and conditions of suppliers. All payments are made and income received by the PCC, with no cash transactions taking place in the name of the CC. Hence all working capital balances are retained on the PCC balance sheet with the exception of employee related creditors which are recognised in the first instance in the CC balance sheet but are funded by either unusable reserves or a short term debtor with the PCC.

**vi. PCC Funding of the Chief Constable's Expenditure**

As the Chief Constable has no resources with which to fulfil his devolved responsibilities to provide a policing service, the expenditure is funded by the PCC. The PCC's funding of the CC's expenditure takes the form of 'intragroup funding' and is shown as income in the CC's CIES and expenditure in the PCC's CIES. The intragroup transactions are accounted for on an accruals basis and are eliminated on consolidation in the Group financial statements. There is no actual transfer of cash involved in this transaction as all the resources belong to the PCC

**vii. Foreign Currency Translation**

Where the PCC has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.

**viii. VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

**ix. Overheads and Support Services**

The 2016/17 Code introduced the requirement to report service segments in the CIES based on the way in which services are managed and reported. Overhead budgets are held as separate budgets and reported to management in the same way as operational budget with no ultimate re-apportionment across operating segments.

**x. Transferred Debt**

Outstanding debt on assets transferred from Lancashire County Council to the former Police Authority on 1 April 1995 is managed by the County Council. The PCC is now responsible for this debt and is charged an amount to cover interest and principal repayments, and receives grant from central government to cover a proportion of these costs. This debt is being repaid on an equal instalment basis over 25 years.

**POLICE PENSION ACCOUNT**

The CC administers the Police Pension Fund Account (the Account) on behalf of the PCC, in accordance with the Police Reform and Social Responsibility Act 2011. Amounts debited and credited to the Account are specified by legislation, the Police Pension Fund Regulations 2007 [Statutory Instrument 2007 No 1932], (the Regulations). During the year all payments and receipts are made to and from the Police Fund, which is held by the PCC. This statement shows the income and expenditure for each of the 1987, the 2006 and the 2015 Police Pension Schemes.

POLICE AND CRIME COMMISSIONER FOR LANCASHIRE 2016/17  
POLICE PENSION ACCOUNT

<b>POLICE PENSIONS ACCOUNT</b>									
	<b>NOTES</b>	<b>1987 scheme £000</b>	<b>2006 scheme £000</b>	<b>2016/17 2015 scheme</b>	<b>Total £000</b>	<b>1987 scheme £000</b>	<b>2015/16 2006 scheme £000</b>	<b>2015 scheme</b>	<b>Total £000</b>
<b>Contributions receivable</b>									
Employer contributions at 21.3% of pensionable pay	3	(8,651)	(390)	(12,923)	<b>(21,964)</b>	(10,488)	(442)	(11,902)	<b>(22,832)</b>
Early Retirements		(2,277)	(69)	(73)	<b>(2,419)</b>	(2,347)	-	(300)	<b>(2,647)</b>
		<b>(10,928)</b>	<b>(459)</b>	<b>(12,996)</b>	<b>(24,383)</b>	<b>(12,835)</b>	<b>(442)</b>	<b>(12,202)</b>	<b>(25,479)</b>
Officer Contributions		(5,806)	(219)	(8,060)	<b>(14,085)</b>	(7,034)	(242)	(7,423)	<b>(14,699)</b>
<b>Total Contributions Receivable</b>		<b>(16,734)</b>	<b>(678)</b>	<b>(21,056)</b>	<b>(38,468)</b>	<b>(19,869)</b>	<b>(684)</b>	<b>(19,625)</b>	<b>(40,178)</b>
<b>Transfers In</b>		<b>(305)</b>	<b>(4)</b>	<b>(209)</b>	<b>(518)</b>	<b>(558)</b>	<b>(211)</b>	<b>(134)</b>	<b>(903)</b>
<b>Benefits Payable</b>									
Pensions		72,638	18	91	<b>72,747</b>	70,303	6	25	<b>70,334</b>
Commutations and lump sum retirement benefits		21,920	22	71	<b>22,013</b>	25,025	39	307	<b>25,371</b>
Lump sum death benefits				112	<b>112</b>	150	-	-	<b>150</b>
Other						1,726	-	-	<b>1,726</b>
<b>Total Benefits Payable</b>		<b>94,558</b>	<b>40</b>	<b>274</b>	<b>94,872</b>	<b>97,204</b>	<b>45</b>	<b>332</b>	<b>97,581</b>
<b>Payments on Account of Leavers</b>									
Transfer values out		110	-	-	<b>110</b>	1,032	-	-	<b>1,032</b>
Refund of contributions		3	-	16	<b>19</b>	1	-	-	<b>1</b>
<b>Total Payments on Account of Leavers</b>		<b>113</b>	<b>-</b>	<b>16</b>	<b>129</b>	<b>1,033</b>	<b>-</b>	<b>-</b>	<b>1,033</b>
<b>Net amount payable/(receivable) for the year contribution from Police Fund</b>		<b>77,632</b>	<b>(642)</b>	<b>(20,975)</b>	<b>56,015</b>	<b>77,810</b>	<b>(850)</b>	<b>(19,427)</b>	<b>57,533</b>
Contribution from the Police Fund not met by Home Office grant	2	(1,178)	(53)	(1,759)	<b>(2,990)</b>	(1,428)	(60)	(1,620)	<b>(3,108)</b>
Additional contribution from the Police Fund met by Home Office grant		(76,454)	695	22,734	<b>(53,025)</b>	(76,382)	910	21,047	<b>(54,425)</b>
<b>Net amount payable/(receivable)</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## NET ASSET STATEMENT

<b>31 March 2016 £000</b>		<b>31 March 2017 £000</b>
(3,229)	Unpaid pensions benefits	(346)
	Payment in Advance	5,428
3229	Amounts owed from/(to) PCC's General Fund	(5,082)
<b>-</b>	<b>Net Assets</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENT

### 1. Basis of preparation

The Police Pension Account combines the accounting transactions of three pension schemes; the 1987 Scheme, which was set up in 1987 and the 2006 Scheme which was created by the Home Office under the Police Pension Regulations 2006 and the most recent 2015 Scheme, established under the Police Pension Regulations 2015 .

From April 2015 the 2015 Police Pension Scheme replaced the 1987 and 2006 Police Pension Schemes. With the exception of some officers closest to retirement, who are covered by full or tapered transitional provisions, all police officers have moved to the new scheme. The 2015 Police Pension Scheme is a Career Average Revalued Earnings (CARE) scheme and replaces final salary schemes. It is governed by the Police Pensions Regulations 2015 and related regulations in the Public Service Pensions Act 2013.

This financial statement has been prepared in accordance with the Police Pension Fund Regulations 2007 (SI 2007 No 1932) and CIPFA Code of Practice 2015/16. It summarises the transactions of the Pension Account. It does not take account of obligations to pay pensions and benefits which fall due after the end of the financial year – these obligations are taken into account by the actuary when valuing the schemes liabilities and are reflected in the CIES and balance sheets of the CC and the PCC Group.

This statement does not form part of the Statement of Accounts for either the PCC or the CC but has been audited as a separate statement and is covered by the audit opinion on Page 91

All the pension schemes are unfunded and have no investment assets. Benefits payable are funded by contributions from employees and employers (in this instance the PCC) and any difference between benefits payable and contributions receivable is funded by an additional contribution by the PCC from/to the Police General Fund, which, prior to 2015/16 was financed in full by top-up grant from the Home Office.

Membership at 31 March is as follows:

	<b>1987</b>		<b>2006</b>		<b>2015</b>		<b>Total</b>	
	<b>31/3/17</b>	<b>31/3/16</b>	<b>31/3/17</b>	<b>31/3/16</b>	<b>31/3/17</b>	<b>31/3/16</b>	<b>31/3/17</b>	<b>31/3/16</b>
Active Members	860	1,115	45	53	1,924	1,747	<b>2,829</b>	2,915
Deferred	539	527	83	75	89	15	<b>711</b>	617
Current Pensioners (incl widows/depends.)	4,253	4,148	5	2	12	10	<b>4,270</b>	4,160
	<b>5,652</b>	5,790	<b>133</b>	130	<b>2,025</b>	1,772	<b>7,810</b>	7,692

2. **Actuarial Valuation**

From 1 April 2015 the actuarial valuation changed the employer contribution rate from 24.2% to 21.3%. However, the benefit of this reduced contribution rate was not passed on to policing bodies which means that, although the deficit on the Police Pension Account is still met by an additional contribution from the Police Fund, not all of this additional contribution is now met from Home Office Grant; an amount equivalent to 2.9% of pensionable pay is funded from the PCC's own resources. This amount is shown separately in the Pensions Account.

3. **Accounting policies**

**General**

The financial statements have been prepared on an accruals basis except for transfers to and from the account and contributions refunded, which are treated on a cash basis.

**Employers' Contributions**

The employers' contribution rate for all the pension schemes is set nationally, based on a percentage of pensionable pay. The rate is subject to triennial revaluation by the Government Actuary's Department, timed to coincide with the revaluation of the local government pension scheme. The rate for 2016/17 was set at 21.3%.

**Employees' Contributions**

Police officer contributions are deducted from officer salaries. Contribution rates range between 11% and 15.05% dependent upon on the range the police officer's salary falls into and whether the officer is a member of the 1987, 2006 or the 2015 scheme.

4. **Net Asset Statement**

The net asset statement does not include liability to pay pensions and other benefits after the 31 March 2017 These liabilities remain ultimately with the PCC Group and have been reflected in the CC and PCC Group Balance Sheets. Details of these liabilities can be found in Note 28 to the main statement of accounts.



## **INDEPENDENT AUDITOR'S REPORT TO THE POLICE AND CRIME COMMISSIONER FOR LANCASHIRE**

We have audited the financial statements of the Police and Crime Commissioner for Lancashire (the "Police and Crime Commissioner") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group and Police and Crime Commissioner Comprehensive Income and Expenditure Statements, the Group and Police and Crime Commissioner Movement in Reserves Statements, the Group and Police and Crime Commissioner Balance Sheets, the Group and Police and Crime Commissioner Cash Flow Statements and the related notes and include the police pension account financial statements of Lancashire Pension Fund comprising the Police Pension Account, the Net Assets Statement and the related notes 1 to 4. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the Police and Crime Commissioner, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Police and Crime Commissioner those matters we are required to state to the Police and Crime Commissioner in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Police and Crime Commissioner as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Chief Financial Officer and auditor**

As explained more fully in the Statement of Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Police and Crime Commissioner and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion:

- the financial statements present a true and fair view of the financial position of the Police and Crime Commissioner and Group as at 31 March 2017 and of the Police and Crime Commissioner's and Group's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

### **Opinion on other matters**

In our opinion, the other information published together with the audited financial statements in the Narrative Report, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

### **Matters on which we are required to report by exception**

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA/SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Police and Crime Commissioner under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

### **Conclusion on the Police and Crime Commissioner's arrangements to for securing economy, efficiency and effectiveness in its use of resources**

#### **Respective responsibilities of the Police and Crime Commissioner and auditor**

The Police and Crime Commissioner is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Police and Crime Commissioner has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### **Scope of the review of the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Police and Crime Commissioner had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Police and Crime Commissioner put in

place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Police and Crime Commissioner has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Police and Crime Commissioner put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

### **Certificate**

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance Statement for the Police and Crime Commissioner for the year ended 31 March 2017. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

*Robin Baker*

Robin Baker  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Royal Liver Building

LIVERPOOL

L3 1PS

28 July 2017



**Lancashire  
Constabulary**  
police and communities together

## **Police and Crime Commissioner for Lancashire Draft Annual Governance Statement 2016/17**

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The Police and Crime Commissioner for Lancashire (PCC) is responsible for ensuring that business is conducted in accordance with the relevant law and proper standards relating to financial management and corporate governance. The PCC also has a statutory duty to secure value for money in the use of public funds.

The Chief Constable is responsible for operational policing matters, the direction and control of police personnel and for putting in place proper arrangements for the governance of the Constabulary, including the effective exercise of its functions and ensuring appropriate arrangements for the management of risk.

The PCC is responsible for holding the Chief Constable to account for the exercise of those functions. This statement reports on the governance arrangements in place.

A joint PCC and Constabulary 'Code of Corporate Governance' sets out both the broad legislative context and local regulatory framework, within which the PCC and the Chief Constable work to fulfill their statutory function of securing an efficient and effective police force. It also outlines how they will ensure robust and effective governance arrangements to support the exercise of those functions.

In discharging this overall responsibility, the PCC is responsible for putting in place proper arrangements for the governance of his office's affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk. The PCC has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the authority's code of corporate governance is on our website at:

<http://lancashire-pcc.gov.uk/the-commissioner/my-office/policies-and-procedures/>

This statement explains how the PCC has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2015, regulation 6(1)(b), which requires all relevant bodies to prepare an annual governance statement.

### **1 THE GOVERNANCE FRAMEWORK**

A framework of governance and internal control has been established, comprising the systems and processes, culture and values by which the Office of the Police and Crime Commissioner is directed and controlled in order to discharge the two primary statutory duties:

- to secure an effective and efficient local police service; and
- to hold the Chief Constable to account for the exercise of his functions and those of officers and staff under his direction and control.

The system of internal control is a significant part of that framework and is based on an on-going

process designed to identify and prioritise the risks to the achievement of the PCC and Chief Constable's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has identified the principles of good governance for public services and those specifically relating to policing services are;

- Focussing on the purpose of the PCC and the Constabulary and on outcomes for the community, and creating and implementing a vision for the local area.
- Leaders, officers and partners working together to achieve a common purpose with clearly defined functions and roles.
- Promoting the values of the PCC and the Constabulary and demonstrating the values of good governance by upholding high standards of conduct and behaviour
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
- Developing the capacity and the capability of the workforce to be effective in their roles.
- Engaging with community, partners and stakeholders to ensure robust public accountability.

## **2 OVERALL ASSURANCE SUMMARY**

No system of internal control can provide absolute assurance against material misstatement or loss.

However, on the basis of the review of the sources of assurance set out in this Statement, we are satisfied that the Police and Crime Commissioner has in place satisfactory systems of corporate governance and internal control which facilitate the effective exercise of their functions and which include arrangements for the effective management of risk.

## **3 THE GOVERNANCE FRAMEWORK**

### **3.1 Focusing on the purpose of the PCC and on outcomes for local people, and creating a vision for the local area.**

The PCC finalised the Police and Crime Plan at the end of March 2013 having consulted extensively with the Chief Constable and other stakeholders. The Police and Crime Plan has therefore been in place for the financial year 2016/17 and is reviewed and updated annually, with outturn performance scrutinised at the end of each year.

The Police and Crime Plan incorporates a number of action plans and processes to support the delivery of the priorities set out within it, including:

- Delivery and business plans to monitor the implementation of the Commissioner's priorities
- Decision making process
- Forward Plan of key decisions

- Commissioning Framework

The PCC's team works closely with the Constabulary in taking forward key areas of business and the PCC has monthly strategic planning meetings both internally with senior members of the Office of the PCC (OPCC) and jointly with the Constabulary's Chief Officers.

The PCC's website provides contact details so that members of the public are able to get in touch, raise issues or concerns direct with him. A case management team has been developed to respond to contact by members of the public and help the PCC focus on the outcomes for local people.

Delivering value for money is a strategic priority for the PCC and the financial context in which the PCC and the Constabulary operate makes achieving value for money and delivering the necessary savings a critical objective.

The budget and medium term financial forecast are set by the PCC, with regular updates around budget monitoring and progress provided throughout the year. The Statement of Accounts will be approved by the PCC and Chief Constable in August 2017.

The governance framework has been in place up to and including the year ending 31 March 2017 and up to the date of approval of the statement of accounts.

### **3.2 Working together to achieve a common purpose with clearly defined functions and roles.**

The governance arrangements for the PCC have been developed in line with recommendations and requirements of the Police Reform and Social Responsibility (PRSR) Act 2011, statutory Policing Protocol, CIPFA and the Home Office. The governance arrangements comply with the Financial Management Code of Practice (FMCP), and other existing guidance on financial and governance matters which continue to apply.

There is a decision making framework which ensures that all PCC decisions are published and available for public scrutiny, and that before any decisions are made appropriate financial, legal and HR advice is obtained. This approach ensures that all of the PCC's decisions are fully assessed for any implications and that the PCC is made aware of these before a decision is made.

In accordance with the requirements of the Financial Management Code of Practice, a Joint Audit and Ethics Committee has been established, this replaced the existing Joint Audit Committee in September 2015. It has agreed terms of reference and quarterly meetings are held in public with papers published on the PCC's website.

### **3.3 Promoting the values for the PCC and Force and demonstrating the values of good governance through upholding high standards of conduct and behaviour.**

Police Officers, Police Staff and the Office of the Police and Crime Commissioner's Officers are all subject to policies and procedures covering discipline, grievance and standards of conduct.

The PCC and the Constabulary have arrangements in place to address fraud and corruption and also to enable staff to report any issues of concern in confidence.

The Joint Audit and Ethics Committee oversees the embedding of a culture of fairness, integrity and respect within the OPCC and the Constabulary.

The Police and Crime Commissioner has clearly outlined who was responsible for the discharge of the responsibilities of the Office of the PCC within its Constitutional and Procedural Standing Orders, Scheme of Delegation, Contractual Standing Orders, Financial Regulations and formal constitution.

The Director of the OPCC is the appointed Monitoring Officer for the Office of the PCC. This role has a statutory duty to highlight any proposals, decisions or omissions by the PCC which constitute, have given rise to, or are likely to give rise to, either a breach of the law, a breach of a statutory code, or which constitute maladministration or injustice.

The PCC's financial management arrangements conform to the governance requirements of CIPFA's Statement on the Role of the Chief Financial Officer in Local Government as set out in the CIPFA Statement on 'The role of the Chief Finance Officer of the Police and Crime Commissioner and the Chief Finance Officer of the Chief Constable'. The PCC'S Chief Finance Officer is the OPCC's professional advisor on financial matters.

The PCC has signed up to a Code of Conduct which incorporates the 7 Nolan principles relating to Public Life. A Code of Conduct has also been agreed for the staff in the OPCC setting out what is expected from them in terms of their conduct.

Standards of professional behaviour are reinforced at every opportunity, including recruitment, induction and in meetings between officer/line managers. Robust vetting procedures are in place for all staff in the OPCC.

The Joint Audit and Ethics Committee has been updated on the activity in relation to external inspections, including HMIC Integrity review and action has been taken to reflect the new Code of Ethics for Policing in the reports provided to the committee.

### **3.4 Taking Informed and transparent decisions which are subject to effective scrutiny and managing risk.**

The PCC has an approved governance framework that is reviewed annually in compliance with the OPCC governance framework to ensure it remains fit for purpose.

The Joint Audit and Ethics Committee is responsible for enhancing public trust and confidence in the governance of the PCC and Lancashire Constabulary. It also assists the PCC in discharging statutory responsibilities in holding the Chief Constable to account.

At the start of each financial year, the PCC and the Constabulary agree a programme of internal and external audit work, which is reported back through the Joint Audit and Ethics Committee. It assists the PCC in discharging his statutory responsibility for holding the Chief Constable to account. Minutes of the Committee are published on the PCC website.

The PCC decision making process requires oversight by both of the statutory officers (i.e. the Monitoring Officer and PCC Chief Finance Officer). All decisions made are formally recorded and made available on the PCC's website for public information and scrutiny.

The Police and Crime Panel for Lancashire comprising local authority and other local representatives, maintains a supportive check and balance on the PCC's decisions and activity through the year. Part of the role of the Police and Crime Panel is to approve the PCC's precept proposals and also the Police and Crime Plan. The PCC's statutory requirements in relation to the Police and Crime Panel were met in full for 2016/17.

The PCC has established a risk management policy and procedures, which cover not only strategic business risks but also significant organisational and operational risks. Strategic level risks are routinely monitored and reviewed through the corporate decision making process. Controlled risks are documented on a dedicated risk register to ensure appropriate and proportionate monitoring whilst maintaining focus on key issues. The PCC considers risk management in discharging all core functions. The PCC's strategic risk register and scrutiny log are live documents that are routinely considered at all key meetings.

### **3.5 Developing the capacity and capability of all to be effective in their roles.**

The PCC holds weekly planning meetings for his senior management team where there is

opportunity to provide briefings on current issues; and a series of briefings and visits to partners is undertaken on a regular basis.

The PCC undertakes specific training as required for the emerging challenges of this role and also benefits from forum meetings with other PCCs, membership of APCC and input to senior OPCC officers from APACE and PACCTS.

The PCC's senior management team and officers have defined roles and areas of responsibility which are regularly reviewed at one to one sessions with the Director of the OPCC and PCC and through the Senior Management Team meetings.

The two statutory officers, namely the Monitoring officer and the PCC's Chief Finance Officer are required to undertake continuing professional development in order to sustain professional qualifications. Officers regularly attend conferences and seminars upon issues of relevance to the delivery of policing and governance.

Training opportunities are identified throughout the year by both the Chief Officers and staff within the OPCC.

Regular staff meetings are held that provide an opportunity for staff to update and enhance their knowledge of key developments on an on-going basis.

All new staff are inducted into the work of the PCC and receive guidance appropriate to the roles to be performed.

### **3.6 Engaging with local people and other stakeholders to ensure robust public accountability.**

The PCC engages with a range of stakeholders, including both statutory and non-statutory organisations, through the Partnerships Officer and Senior Strategic Advisor's attendance at Community Safety Partnerships (CSPs) and Youth Justice Management Boards and members of the PCC's team attendance at a range of partnership boards including the Lancashire Criminal Justice Board, Lancashire Community Safety Strategy Group, Lancashire Road Safety Partnership and Health and Wellbeing Boards. Attendance at these partnerships has been by agreement with stakeholders and has been welcomed with the PCC providing reports on a regular basis.

Where the PCC has entered into joint commissioning or funding agreements with stakeholders he is represented on management and/or strategic governance boards related to the initiatives or schemes being supported, if this is not covered by stakeholder partnerships already attended.

The PCC uses a series of digital and social media channels to keep residents, visitors and local businesses informed about what the PCC is doing in terms of news, events, promotions, consultations, engagement activity and job opportunities.

The PCC's website is used as a front counter of information showcasing all decisions made by the PCC and progress against the Police and Crime Plan. The use of the corporate website and social media will continue to be used to engage with and provide greater access to information for the community.

The public are provided with a variety of opportunities to comment on decisions and policing services including: telephone and on-line consultation; specific research with communities that cut across geographical areas (e.g. people with different faiths, people of black and minority ethnic origin, older people, people with disabilities, young people and vulnerable adults); engagement with elected members to inform understanding of residents issues; door to door canvassing and local surgeries, which helps to build up knowledge of local community issues and the PCC also meets regularly with residents in their communities so he can bring their views into the decision making process.

The PCC provides opportunities for the public to influence decisions and provide feedback on decisions, services and policies and provides the chance to be involved in the commissioning of services.

#### **4 REVIEW OF EFFECTIVENESS**

The PCC has responsibility for conducting, at least annually, a review of the effectiveness of the governance framework, including the system of internal audit and the systems of internal control. The review has been conducted by the Chief Officer team and takes account of comments from both internal and external audit and inspectorate reports.

The review involves gathering examples of effective controls, mitigation of risks and the overall efficiency and effectiveness of the organisation. The evidence gathered is documented in a separate record which is used to support the certificates of assurance signed by each of the chief officer team.

The roles and processes applied in maintaining and reviewing the effectiveness of the governance framework are outlined below:

##### **OPCC**

The OPCC has overall responsibility for the discharge of all the powers and duties placed on it and has a statutory duty to 'maintain an efficient and effective police force'. The review and maintenance of the governance framework is undertaken by the Joint Audit and Ethics Committee that discusses governance issues, referring reports to the PCC when it is felt necessary.

##### **Lancashire Constabulary**

The Chief Constable has responsibility for conducting a review of the effectiveness of the governance framework within the Constabulary at least on an annual basis. This review is informed by the work of the Chief Finance Officers, Head of Internal Audit, and the Risk and Assurance Managers within the Constabulary who have responsibility for the development and maintenance of the governance environment. In preparing the Annual Governance Statement for 2016/17 the officers of the OPCC have placed reliance on this review and the Constabulary's resulting Annual Governance Statement.

##### **Joint Audit and Ethics Committee**

The Joint Audit and Ethics Committee receives regular reports on governance issues, including the review of the Annual Governance Statement for inclusion in the Annual Statement of Accounts and update reports on progress made in addressing any significant governance issues included in it.

##### **Head of Internal Audit**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The Head of Internal Audit reports regularly to the Chief Executive and Chief Finance Officers.

Regular monitoring reports and an annual report are received from the Internal Audit Service, providing the Joint Audit and Ethics Committee and previously the Joint Audit Committee, with an opportunity to challenge the assurances that have been obtained over the operation of key controls.

The responsibility for updating, maintaining and reviewing the systems of internal control rests with the OPCC, but it takes significant assurance from the work of the Internal Audit Service. In fulfilling this responsibility, each year it receives an opinion on the overall adequacy and effectiveness of the OPCC's internal control environment, which provides details of any weaknesses particularly relevant to the preparation of the Annual Governance Statement.

In maintaining and reviewing the governance framework, the PCC's Chief Finance Officer places reliance on the work undertaken by the Internal Audit Service and in particular the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the system of internal control. For 2016/17 the Head of Internal Audit has stated that there is a generally sound system of internal control during the year, adequately designed to meet the Constabulary's, and the OPCC's objectives and controls are generally applied consistently.

Recommendations arising from audit reports are reviewed and action plans developed in order to address these. These are followed up throughout the year by the Internal Audit Service and are reported through to the Joint Audit and Ethics Committee.

### **External Audit**

External Audit are an essential element in ensuring public accountability and stewardship of public resources and the corporate governance of the OPCC's services, with their annual letter particularly providing comment on financial aspects of corporate governance, performance management and other reports.

### **Other areas for consideration:**

In addition to the above, other review / assurance mechanisms such as Her Majesty's Inspectorate of Constabulary who are charged with promoting the effectiveness and efficiency of policing, improving performance and sharing good practice nationally, the Independent Police Complaints Commission and the Health and Safety Inspectorate are also relied upon.

The review of the effectiveness of the system of internal control is informed by the work of the Internal Audit Service and the senior managers within the OPCC and the Constabulary who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates in their annual audit letter and other reports.

As part of the assurance gathering process for this statement, certificates of assurance have been completed and will be signed by the Director of the OPCC and the Chief Finance Officer.

## **5 REVIEW OF ORGANISATIONAL RISKS**

Key strategic risks are monitored and reviewed throughout the year and form part of the Commissioner's risk register.

### **Financial pressures**

The PCC's Medium Term Financial Strategy (MTFS) identifies that some £13m of savings must be identified to 2019/20. This is in addition to the savings of £79m that have already been delivered since 2011/12. In addition there is an expectation that the Government will implement a revised formula to allocate police funding in 2018/19, it is anticipated that this will have a significantly detrimental impact on the level of funding provided to Lancashire. In order to meet the savings challenge the PCC and the Constabulary have the long established 'Futures' programme that will identify the changes to be made in the delivery of services that will deliver the savings required to

balance the budget whilst seeking to maintain the quality of service being delivered.

### **Demand pressures**

It is clear that the demands placed upon the policing service are rising. The type of crime being dealt with is increasingly complex and the amount of these types of crime is rising significantly. This combination has increased the pressure on available resources dramatically.

In addition, cuts to services in other areas of the public sector, such as mental health care, mean that more people are committing crimes or presenting a risk of harm to either themselves or other members of the public. This clearly represents a further increase in the demands placed upon policing resources.

In Lancashire there is an established collaborative approach to intervene as early as possible with people at risk of committing crime or harming themselves or others. This is under the 'Early Action' programme which provide a multi-agency approach to dealing with individuals identified as vulnerable, and at risk, and providing pathways to support for them in as efficient way as possible, which in turn reduces the demands placed on the police service.

There is also a more specific demand pressure being faced in Lancashire in respect of the approval by the Home Secretary for Fracking to take place in the County. The actions taken by a significant number of protestors opposed to this decision requires a considerable amount of policing resource on a day to day basis to manage the situation. A specific operation has been implemented to deal with this issue through a reorganisation of the existing resources available however this does generate additional cost at a significant level. The PCC has engaged with central government in an attempt to secure specific funding to help meet this additional cost but if this is not successful plans are in place to manage the cost within the overall finances available to the PCC.

These, along with the other key risks identified in the risk register, will be monitored closely and regularly reported upon to the Joint Audit and Ethics Committee.

<b>Signed:</b>	<b>Signed:</b>
Clive Grunshaw Police and Crime Commissioner for Lancashire	Angela Harrison Director of the Office of the Police and Crime Commissioner for Lancashire
<b>Date: 28 July 2017</b>	<b>Date: 28 July 2017</b>

## GLOSSARY

### **Accounting Policies**

The specific principles, bases, conventions, rules and practices applied by the authority in preparing and presenting financial statements.

### **Accrual**

The concept that income and expenditure are recognised as they are earned or incurred, not as cash is received or paid.

### **Actuary**

An actuary is an expert on pension scheme assets and liabilities. The Local Government Pension Scheme Actuary reassesses the rate of employer contributions to the pension fund every three years.

### **Actuarial gains and losses**

A change in pension fund liability due to the effects of differences between the previous actuarial assumptions and what has actually occurred. Outcomes are better or worse than the actuary had predicted or assumed – for example, because the fund's assets earn more than expected, salaries do not increase as fast as assumed or members retire later than assumed.

### **Agency services**

Services which one authority is responsible for, but which another authority provides (as the agent). The authority responsible pays the agent authority the cost of the services provided.

### **Amortisation**

An annual charge to the revenue account that spreads the cost of an asset over a period of time.

### **Appropriation**

A contribution to or from a financial reserve.

### **Assets held for Sale**

Assets that are no longer needed by the PCC and which he is selling.

### **Audit qualification**

A comment made by the auditors if they are not completely satisfied with the accounts.

### **Budget**

A statement which reflects the PCC's policies in financial terms and which sets out its spending plans for a given period.

### **Capital assets**

Assets bought through capital expenditure. They are also known as 'capital items' and 'fixed assets'.

### **Capital creditors**

Amounts owed by the PCC for spending on buying or improving assets.

### **Capital expenditure**

Spending on buying or improving assets that have a long-term benefit – for example land, buildings and roads. Capital expenditure is also known as 'capital spending', 'capital outlay' and 'capital payments'.

### **Capital grant**

Money received for capital items (see 'capital expenditure' above).

### **Capitalisation**

The classification of expenditure as capital rather than revenue, subject to the condition that the expenditure yields a benefit to the authority for a period of more than one year.

### **Capital investment**

Money invested in capital projects.

**Capital projects**

Projects to buy or improve assets that have a long-term benefit – for example, land, buildings and roads. These projects are funded by capital expenditure.

**Capital receipts**

Proceeds received from the sale of capital assets. The proceeds are set aside in the Capital reserve in order to repay the county council's borrowings or to finance new capital expenditure.

**Capital schemes**

Another term for 'capital projects'.

**Capitalise**

To treat as capital expenditure rather than revenue expenditure.

**Capital elements**

Various items of costs e.g. materials and interest payments.

**Capital funding**

Money to support spending on capital projects.

**Capital receipts**

Amounts received from the sale of capital assets. These can only be used for 'capital purposes' – to repay an existing debt or to finance new capital expenditure. Amounts received which have not yet been used are referred to as 'capital receipts unapplied'.

**Capital reserves**

Amounts set aside to support future capital projects.

**Capital value**

Amount spent on capital.

**Cash balance**

Cash available to invest on the money market.

**Cash Equivalents**

Short term (less than 3 months), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**Cash transactions**

Cash amounts entering or leaving the accounts – for example, to pay for goods or services, or income from fees and charges.

**Central items**

Central overheads e.g. payroll costs.

**Change in Accounting Estimate**

An adjustment of the carrying amount of an asset or liability that results from an assessment of the present status and future benefits or obligations. These changes occur as a result of new information, and are not corrections of errors.

**Class of tangible non-current assets**

The classes of tangible non-current assets required to be included in the accounting statements are:

Property Plant & Equipment

- Land and buildings.
- Vehicles, plant, furniture and equipment.
- Assets under construction

## **CIPFA**

The Chartered Institute of Public Finance and Accountants is the accountancy body which recommends accounting practice for the preparation of local authority accounts.

## **Collection fund**

The system used by district and borough councils to keep Council Tax separate from their own accounts. The amount in the collection fund each year is fed into the Council Tax calculation for the following year.

## **Construction Contract**

A contract specifically negotiated for the construction of an asset and services related to the construction, for example architects.

## **Contingent liabilities**

Liabilities relating to a known set of circumstances which may or may not arise. They can also be liabilities which are likely to arise but which are very difficult to measure until future developments make things clearer.

## **Corporate and democratic core**

The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to the services.

## **Corporate governance**

The authoritative rules and controls in place within an organisation required to promote openness, inclusivity, integrity and accountability.

## **Council Tax precept**

The Council Tax charged by one authority (the precepting authority) which is collected by another authority (the billing authority). The PCC's Council Tax income is charged through a precept on the district councils' collection funds

## **Creditors**

Amounts owed by the PCC for work carried out, goods received or services provided, which had not been paid by the date of the balance sheet.

## **Current assets and liabilities**

Current assets are cash, cash equivalents and items that can be readily converted into cash. Current liabilities are items that are due for payment immediately or in the short term.

By convention these items are ordered by reference to the ease that the asset can be converted into cash, and the timescale in which the liability falls due.

## **Current service cost (IAS 19)**

The increase in the PCC's defined benefit scheme obligation (pension scheme liability) as a result of employees' service during the current year.

## **Curtailed cost (IAS 19)**

Additional pension scheme liabilities as a result of redundancies and efficiency retirements during the year.

## **Current Value**

For land and buildings, the amount that would be exchanged for the asset in its existing use.

## **Debt redemption**

This is where a debt is repaid early.

## **Debtors**

Amounts owed to the Authority which had not been paid by the date of the balance sheet.

## **Defined Benefit Scheme**

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

**Depreciation**

Charges to the income and expenditure account to reflect a decrease in the value of assets as a result of use or ageing.

**Discretionary benefits**

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the PCC's discretionary powers.

**Devolved financial management (DFM)**

The PCC's budget management system. The budget is managed by those who make the decisions in each area of responsibility ('accountable officers').

**Employer's pension contributions**

Payments to the pension scheme made by the Authority for current employees.

**Expected return on assets (IAS 19)**

The average rate of return expected on investment assets held by the pension scheme.

**Fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**Finance Lease**

A lease that transfers substantially all the risks and rewards related to the ownership of the asset to the lessee.

**Financial year**

The period of 12 months for which the accounts are drawn up. For local authorities the financial year (or 'accounting period') begins on 1 April and finishes on 31 March of the following year.

**Financing charges**

Repayments on amounts loaned to the PCC by external organisations. These charges include interest as well as repayment of the amount borrowed (the 'principal').

**Financial instrument**

A financial instrument can be a financial asset or a financial liability. A financial asset is a contract such as an investment or loan representing amounts due to the authority. A financial liability is a contract such as borrowing representing amounts owed by the authority.

**Fixed assets**

Assets intended to be used for several years – for example, buildings, machinery and vehicles.

**General Fund**

The main revenue fund used to provide police services. Income to the fund consists of the precept on the collection funds, government grants and other income.

**Government grants**

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

**Historic cost**

The cost of an asset at the time it was bought.

**Impairment**

This is where the useful working life of an asset is significantly reduced – for example, because of damage to a piece of equipment or changes in technology which mean that a service can be provided more efficiently in other ways. When the amount at which the asset is held exceeds the amount the authority could receive for the asset, an impairment loss is recognised.

**Intangible assets**

Assets which do not have a physical form. Examples include internally developed systems, computer software, brand names, patents and copyrights.

**Interest cost (pensions)**

The expected increase in the value of pension scheme liabilities because benefits are one year closer to being paid.

**Inventory**

Raw materials and consumable goods bought but not yet used at the end of the accounting period.

**Investing Activities**

The acquisition of and disposal of long term assets and other investments not included as part of cash equivalents.

**Investment Property**

Property which is held solely to earn rentals or for capital appreciation, not as part of service delivery.

**Market value**

The monetary value of an asset as determined by current market conditions at the balance sheet date.

**Materiality**

The concept that any omission from or inaccuracy in the statement of accounts should not be so large as to affect the understanding of those statements by a reader.

**Minimum revenue provision**

The minimum amount (as laid down in statute) that the PCC must charge to the accounts each year in order to meet the costs of repaying amounts borrowed.

**Net book value**

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

**Net current replacement cost**

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

**Net pension liability**

The amount the pension scheme will have to pay out in the future, less the value of pension fund assets.

**Net realisable value**

The amount for which an asset can be sold, less the cost of selling it.

**Nil consideration**

Where no charge is made for an item.

**Nominal value of a financial instrument**

The nominal value of a financial instrument is the amount, exclusive of interest, payable or receivable when the instrument matures.

**Non-cash adjustments**

Changes in debtors' and creditors' balances over the year.

**Non-distributed costs**

These are costs that cannot be specifically applied to a service or services and are held centrally, comprising certain pension costs and the costs of unused shares of IT facilities and other assets.

**Non-operational assets**

Assets which are not in use.

**Operating lease**

A lease where ownership of the goods remains with the company leasing them to the PCC.

**Operational assets**

Assets used for day-to-day activities – for example, land, buildings, furniture and equipment.

**Past service cost or gain (IAS 19)**

The increase or decrease in pension scheme liabilities as a result of changes to benefits earned in previous years – for example, because of early retirement or changes to pension scheme regulations.

**Pension enhancements**

Additional pension benefits (such as added years on early retirement) awarded to scheme members in line with the PCC's general conditions of employment.

**Principal**

The amount of money borrowed, not including interest charges.

**Principal repayment of debt**

Re-payment of a loan, not including interest charges.

**Prior period adjustments**

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

**Projected unit method (Pensions)**

An accrued benefits valuation method in which the scheme liabilities make allowance for the projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- (a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases, and
- (b) the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not.

**Provisions**

Funds set aside to cover specific past expenses, where the exact cost or timing is still uncertain.

**Public Works Loan Board (PWLB)**

A government agency which provides longer-term loans to local authorities at interest rates only slightly higher than those at which the government itself can borrow.

**Realisable value**

The amount for which an asset can be sold.

**Reconciliation**

The process of checking figures from different areas which should logically match up – for example, matching invoices paid against amounts banked.

**Related party**

A person or organisation which has influence over another person or organisation.

**Reserves**

Amounts set aside in one year's accounts which can be spent in later years. Some types of reserve can only be spent if certain conditions are met.

**Residual value**

The amount an asset can be sold for, less the cost of selling it.

**Revenue account**

An account which records the PCC's day to day expenditure and income relating to items such as salaries, wages and the costs of running services.

**Revenue contribution to capital outlay**

This is where capital expenditure is financed by a direct contribution from the revenue account, rather than by a loan or another form of finance.

**Revenue expenditure**

The Authority's day-to-day spending. This is charged to the revenue account and consists mainly of salaries and wages, running costs and financing charges.

**Reversed out**

This is where an opposite entry is made in the accounts, to cancel the effect of a transaction.

**Specific grants**

Government grants for a particular service.

**Tangible assets**

Assets which have a physical form – for example, buildings, furniture and equipment.

**Total net worth**

The total net value of resources available to or owned by the PCC.

**Transfer in**

A transfer of money into the pension fund from another pension fund.

**Transfer out**

A transfer of money out of the pension fund to another pension fund.

**Transfer value**

A payment made by one pension fund to another when a scheme member changes schemes.

**Useful life**

The period which an asset is expected to be available for use.

**Write down**

This is where amounts are charged to the revenue account or offset against another balance sheet account.